Docket:	:	A.09-07-001
Exhibit Number	:	
Commissioner	:	John Bohn
Admin. Law Judge	:	Jeffrey O' Donnell
DRA Project Mgr.	:	Patrick Hoglund

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON THE RESULTS OF OPERATIONS IN REDWOOD VALLEY DISTRICT OF CALIFORNIA WATER SERVICE COMPANY

Test Year 2011 and
Escalation Years 2012 and 2013
Application 09-07-001

For authority to increase water rates located in its Redwood Valley District serving portions of the community of Lucerne in Lake County, Dillon Beach in Marin County, and communities in the vicinity of Guerneville and Santa Rosa in Sonoma County.

San Francisco, California
February 10, 2010

TABLE OF CONTENTS

MEMORANDUM

The Division of Ratepayer Advocates ("DRA") of the California Public Utilities Commission ("Commission") prepared this Report in California Water Service Company's ("CWS") rate case proceeding A.09-07-001. In this docket, the Applicant requests an order for authorization to increase rates charged for water service as follows:

$398,600 or 154.8 % in Test year 2011; by $(6,500) or -1.0% in Escalation year 2012; and by $(6,200) or -1.0% in Escalation year 2013 in its Coast Springs service area;

$682,600 or 54.9% in Test Year 2011; by $121,300 or 6.3% in Escalation year 2012; and by $121,300 or 5.9% in Escalation year 2013 in its Lucerne service area;

$428,200 or 86.3% in Test year 2011; by $6,900 or 0.8% in Escalation year 2012; and by $6,900 or 0.7% in Escalation year 2013 in its Unified service area.

The applicant requests adoption of a rate of return of 8.58% from D. 09-05-019. DRA presents its analysis and recommendations associated with the Applicant's request in this Report.

Patrick Hoglund serves as DRA's project coordinator in this review, and is responsible for the overall coordination in the preparation of this report. Appendix A contains witnesses' prepared qualifications and testimony.

DRA's reports on payroll, conservation expenses and special requests are included under separate Reports.

DRA's Legal Counsels for this case are Selina Shek, Allison Brown, and Hien Vo.

EXECUTIVE SUMMARY

For Coast Springs, CWS requests increasing rates by 154.8% in Test Year 2011 and -1.0% in Escalation Year 2012, whereas DRA recommends an increase of 81.9% in Test Year 2011, and inflationary increases for the Escalation Years. DRA further recommends that the increase be phased in over three years.

For Lucerne, CWS requests increasing rate by 54.9% in Test Year 2011 and 6.3% in Escalation Year 2012, whereas DRA recommends an increase of 30.6% in Test Year 2011, and inflationary increases for the Escalation Years.

For Unified, CWS requests increasing rate by 86.3% in Test Year 2011 and 0.8% in Escalation Year 2012, whereas DRA recommends an increase of 23.1% in Test Year 2011, and inflationary increases for the Escalation Years.

Key Recommendations

DRA recommends that CWS' requested rate of return of 8.58% be adopted in this proceeding.

DRA's recommendations are based on lower estimates of Operation and Maintenance expenses (Chapter 3), lower estimates of Administrative and General expenses (Chapter 4), lower Plant additions (Chapter 7) and lower Ratebase (Chapter 9).

DRA addresses its recommended treatment of CWS' 30 Special Requests ("SR") in a separate report. That report discusses Special Request #12 regarding continuation of rate support fund, Special Request #4 regarding the allowance of a true-up of interim rates for the Redwood Valley District, and Special Request #20 regarding compliance with D.08-03-020 requiring CWS to report on alternative water supplies in the Coast Springs rate area of the Redwood Valley District.

List of DRA Witnesses and Respective Chapters

Chapter Number	Description	Witness
-	Executive Summary	
1	Overview and Policy Introduction and Summary of Earnings	Patrick Hoglund
2	Water Consumption and Operating Revenues	Lisa Bilir Zachary Burt
3	Operations and Maintenance (except Payroll) Expenses	Raymond Yin
4	Administrative & General (except Payroll & Conservation) Expenses	Cleason Willis
5	Taxes Other Than Income	Jerry Oh
6	Income Taxes	Jerry Oh
7	Utility Plant in Service	Isaiah Larsen
8	Depreciation Reserve and Depreciation Expense	Isaiah Larsen
9	Ratebase N/G multiplier	Isaiah Larsen Richard Rauschmeier
10	Customer Service	Toni Canova
11	Rate Design	Lisa Bilir
12	Water Quality	Pat Ma
13	Step Rate Increase	Patrick Hoglund

CHAPTER 1: OVERVIEW AND POLICY

A. INTRODUCTION

This Report sets forth DRA's analysis and recommendations for A. 09-07-001, CWS' general rate increase request for Test Year 2011 and Escalation Years 2012 and 2013.

B. SUMMARY OF RECOMMENDATIONS

At the end of this Chapter, for each ratemaking area, Coast Springs, Lucerne, and Unified, Tables 1-1 through 1-3 of the Summary of Earnings compare the results of operations for Test Year 2011 including revenues, expenses, taxes and rate base.

C. DISCUSSION

CWS requests the total revenues as follows:

Coast Springs rate area

Year	Amount of Increase	Percent
2011	$398,600	154.8%
2012	$ (6,500)	-1.0%
2013	$ (6,200)	-1.0%

Lucerne rate area

Year	Amount of Increase	Percent
2011	$682,600	54.9%
2012	$121,300	6.3%
2013	$121,300	5.9%

Unified rate Area

Year	Amount of Increase	Percent
2011	$428,200	86.3%
2012	$ 6,900	0.8%
2013	$ 6,900	0.7%

CWS estimates that its proposed rates in the Application will produce revenues providing the following returns:

Year	Return on Rate Base	Return on Equity
2011	8.58%	10.2%
2012	8.58%	10.2%
2013	8.58%	10.2%

D. CONCLUSION

DRA recommends a revenue increase for the Test Year as follows (Escalation Years 2012 and 2013 are covered in Chapter 12):

Service Area	Year	Amount of Increase	Percent
Coast Springs	2011	$210,700	81.9%
Lucerne	2011	$380,500	30.6%
Unified	2011	$112,200	23.1%

D.06-08-011 authorized the last general rate increase for CWS in A. 05-08-013, resulting in a rate of return on rate base of 8.66% in 2008-2009. Present Rates in this report are those authorized in D. 06-08-011.

A comparison of DRA and CWS' estimates for rate of return on rate base for the Test Year 2011 at present and the utility's proposed rates is shown below:

RATE OF RETURN

Coast Springs Rate Area

	DRA	CWS	Diff
Present Rates	-16.54%	-4.92%	11.62%
Proposed Rates	30.50%	8.58%	-21.91%

Lucerne Rate Area

	DRA	CWS	Diff
Present Rates	2.42%	-0.16%	-2.58%
Proposed Rates	13.46%	8.58%	-4.88%

Unified Rate Area

	DRA	CWS	Diff
Present Rates	-0.02%	-3.23%	-3.20%
Proposed Rates	32.52%	8.58%	-23.93%

TABLE 1-1

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
SUMMARY OF EARNINGS

TEST YEAR 2011

(AT PRESENT RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	257.4	257.5	0.1	0.0%
Operating expenses:				
Operation & Maintenance	154.2	169.7	15.5	10.1%
Administrative & General	63.1	68.9	5.8	9.2%
G. O. Prorated Expense	60.2	81.2	21.0	34.9%
Dep'n & Amortization	92.0	98.9	6.9	7.5%
Taxes other than income	6.5	15.0	8.5	130.8%
State Corp. Franchise Tax	(6.9)	(19.8)	(13.0)	188.6%
Federal Income Tax	(25.5)	(67.0)	(41.5)	162.6%
Total operating exp.	343.6	346.8	3.2	0.9%
Net operating revenue	(86.2)	(89.3)	(3.1)	3.6%
Rate base	521.0	1,815.0	1,294.0	248.4%
1 Return on rate base	-16.54%	-4.92%	11.62%	-70.3%

TABLE 1-2

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
SUMMARY OF EARNINGS

TEST YEAR 2011

(AT UTILITY PROPOSED RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	655.6	656.0	0.4	0.1%
Operating expenses:				
Operation & Maintenance	154.2	169.7	15.5	10.1%
Administrative & General	63.1	68.9	5.8	9.2%
G. O. Prorated Expense	60.2	81.2	21.0	34.9%
Dep'n & Amortization	92.0	98.9	6.9	7.5%
Taxes other than income	6.5	15.0	8.5	130.8%
State Corp. Franchise Tax	28.3	15.4	(12.9)	-45.7%
Federal Income Tax	92.4	51.1	(41.2)	-44.6%
Total operating exp.	496.7	500.2	3.5	0.7%
Net operating revenue	158.9	155.8	(3.1)	-2.0%
Rate base	521.0	1,815.0	1,294.0	248.4%
1 Return on rate base	30.50%	8.58%	-21.91%	-71.9%

TABLE 1-3

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
SUMMARY OF EARNINGS

TEST YEAR 2011

(DRA ESTIMATES)

Item	DRA Est. @ Present Rates	@ Rates Proposed by DRA	Proposed Exceeds Present Amount	%
	(Thousands of $)			
Operating revenues	257.4	468.1	210.7	81.9%
Operating expenses:				
Operation & Maintenance	154.2	154.2	0.0	0.0%
Administrative & General	63.1	63.1	0.0	0.0%
G. O. Prorated Expense	60.2	60.2	0.0	0.0%
Dep'n & Amortization	92.0	92.0	0.0	0.0%
Taxes other than income	6.5	6.5	0.0	0.0%
State Corp. Franchise Tax	(6.9)	11.8	18.6	-271.0%
Federal Income Tax	(25.5)	35.6	61.2	-239.6%
Total operating exp.	343.6	423.4	79.8	23.2%
Net operating revenue	(86.2)	44.7	130.9	-151.9%
Rate base	521.0	521.0	0.0	0.0%
1 Return on rate base	-16.54%	8.58%	25.12%	-151.9%

TABLE 1-1

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
SUMMARY OF EARNINGS

TEST YEAR 2011

(AT PRESENT RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	1,242.8	1,242.8	0.0	0.0%
Operating expenses:				
Operation & Maintenance	555.8	625.7	69.9	12.6%
Administrative & General	233.0	252.8	19.8	8.5%
G. O. Prorated Expense	220.7	297.4	76.7	34.8%
Dep'n & Amortization	151.0	164.2	13.2	8.7%
Taxes other than income	55.8	70.2	14.4	25.8%
State Corp. Franchise Tax	(8.6)	(30.9)	(22.3)	260.5%
Federal Income Tax	(52.8)	(129.1)	(76.4)	144.8%
Total operating exp.	1,155.0	1,250.2	95.3	8.3%
Net operating revenue	87.8	(7.4)	(95.3)	-108.5%
Rate base	3,623.5	4,770.2	1,146.7	31.6%
Return on rate base	2.42%	-0.16%	-2.58%	-106.4%

TABLE 1-2

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
SUMMARY OF EARNINGS

TEST YEAR 2011

(AT UTILITY PROPOSED RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	1,925.2	1,925.4	0.2	0.0%
Operating expenses:				
Operation & Maintenance	563.0	632.9	69.9	12.4%
Administrative & General	233.0	252.8	19.8	8.5%
G. O. Prorated Expense	220.7	297.4	76.7	34.8%
Dep'n & Amortization	151.0	164.2	13.2	8.7%
Taxes other than income	55.8	70.2	14.4	25.8%
State Corp. Franchise Tax	51.1	28.8	(22.3)	-43.7%
Federal Income Tax	162.7	69.8	(92.9)	-57.1%
Total operating exp.	1,437.3	1,516.1	78.8	5.5%
Net operating revenue	487.9	409.3	(78.6)	-16.1%
Rate base	3,623.5	4,770.2	1,146.7	31.6%
Return on rate base	13.46%	8.58%	-4.88%	-36.3%

TABLE 1-3

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
SUMMARY OF EARNINGS

TEST YEAR 2011

(DRA ESTIMATES)

Item	DRA Est. @ Present Rates	@ Rates Proposed by DRA	Proposed Exceeds Present Amount	%
	(Thousands of $)			
Operating revenues	1,242.8	1,623.3	380.5	30.6%
Operating expenses:				
Operation & Maintenance	555.8	559.8	4.0	0.7%
Administrative & General	233.0	233.0	0.0	0.0%
G. O. Prorated Expense	220.7	220.7	0.0	0.0%
Dep'n & Amortization	151.0	151.0	0.0	0.0%
Taxes other than income	55.8	55.8	0.0	0.0%
State Corp. Franchise Tax	(8.6)	24.7	33.3	-388.1%
Federal Income Tax	(52.8)	67.3	120.1	-227.7%
Total operating exp.	1,155.0	1,312.4	157.4	13.6%
Net operating revenue	87.8	310.9	223.1	253.9%
Rate base	3,623.5	3,623.5	0.0	0.0%
1 Return on rate base	2.42%	8.58%	6.16%	253.9%

TABLE 1-1

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
SUMMARY OF EARNINGS

TEST YEAR 2011

(AT PRESENT RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	485.9	495.9	10.0	2.1%
Operating expenses:				
Operation & Maintenance	219.9	244.4	24.5	11.2%
Administrative & General	106.4	111.8	5.4	5.1%
G. O. Prorated Expense	75.1	101.5	26.4	35.2%
Dep'n & Amortization	68.2	138.4	70.2	102.9%
Taxes other than income	13.5	19.0	5.5	40.7%
State Corp. Franchise Tax	(1.1)	(14.5)	(13.5)	1274.4%
Federal Income Tax	4.1	(36.2)	(40.3)	-991.8%
Total operating exp.	486.1	564.4	78.3	16.1%
Net operating revenue	(0.2)	(68.5)	(68.3)	41423.4%
Rate base	805.2	2,122.6	1,317.4	163.6%
Return on rate base	-0.02%	-3.23%	-3.20%	15652.3%

TABLE 1-2

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
SUMMARY OF EARNINGS

TEST YEAR 2011

(AT UTILITY PROPOSED RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	910.5	924.3	13.8	1.5%
Operating expenses:				
Operation & Maintenance	221.8	249.5	27.8	12.5%
Administrative & General	106.4	111.8	5.4	5.1%
G. O. Prorated Expense	75.1	101.5	26.4	35.2%
Dep'n & Amortization	68.2	138.4	70.2	102.9%
Taxes other than income	13.5	19.0	5.5	40.7%
State Corp. Franchise Tax	36.3	22.9	(13.4)	-37.0%
Federal Income Tax	127.4	99.0	(28.4)	-22.3%
Total operating exp.	648.7	742.1	93.5	14.4%
Net operating revenue	261.8	182.2	(79.7)	-30.4%
Rate base	805.2	2,122.6	1,317.4	163.6%
Return on rate base	32.52%	8.58%	-23.93%	-73.6%

TABLE 1-3

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
SUMMARY OF EARNINGS

TEST YEAR 2011

(DRA ESTIMATES)

Item	DRA Est. @ Present Rates	@ Rates Proposed by DRA	Proposed Exceeds Present Amount	%
	(Thousands of $)			
Operating revenues	485.9	598.1	112.2	23.1%
Operating expenses:				
Operation & Maintenance	219.9	220.4	0.5	0.2%
Administrative & General	106.4	106.4	0.0	0.0%
G. O. Prorated Expense	75.1	75.1	0.0	0.0%
Dep'n & Amortization	68.2	68.2	0.0	0.0%
Taxes other than income	13.5	13.5	0.0	0.0%
State Corp. Franchise Tax	(1.1)	8.8	9.9	-934.2%
Federal Income Tax	4.1	36.7	32.6	802.9%
Total operating exp.	486.1	529.0	43.0	8.8%
Net operating revenue	(0.2)	69.1	69.3	-42003.1%
Rate base	805.2	805.2	0.0	0.0%
1 Return on rate base	-0.02%	8.58%	8.60%	-42003.1%

CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding forecasted number of customers, water sales and operating revenues for CWS' Redwood Valley district. The Redwood Valley district includes General Metered Service Tariffs for six divisions – Armstrong, Coast Springs, Hawkins, Lucerne, Noel Heights, and Rancho del Paradiso, all located in Sonoma County. In CWS' workpapers, the Redwood Valley district is split into three divisions including Coast Springs, Lucerne, and Unified. In 2008 at year end, Redwood Valley had an average of 428 service connections in the Unified division, 1,272 service connections the Lucerne division, and 251 service connections in the Coast Springs division. Redwood Valley's total service connections in 2008 was 1,951. DRA reviewed CWS' data responses, testimony, application, and workpapers before formulating its own estimates.

B. SUMMARY OF RECOMMENDATIONS

DRA adhered to the methods outlined in the Rate Case Plan ("RCP") in DRA's analysis of sales forecast and revenues in every district except Redwood Valley. In Redwood Valley, DRA does not object to CWS' proposal to use a simple average to forecast sales per customer. The reasons CWS provided are that there is insufficient recorded historical data and that data is necessary because sales vary drastically among the sub-regions of the Redwood Valley District.

1) Average Active Service Connections

The Commission should adopt DRA's forecasted number of customers.

2) Metered Sales and Supply

DRA agrees with CWS' proposal.

3) Operating Revenues

The Commission should adopt DRA's estimates for operating revenues. DRA uses the same method as CWS to calculate operating revenues, although DRA presents the operating revenues differently for illustrative purposes (see Appendix A to Chapter 2 for DRA's Bakersfield report in section B. 1. and B. 2. for the complete explanation).

4) Unaccounted for Water

DRA agrees with CWS' estimate of unaccounted for water, based upon the five-year average recorded unaccounted for water, for the Coast Springs and Lucerne divisions. For the Unified division, CWS did not provide accurate data to calculate the five-year average, and DRA recommends 8% unaccounted for water.

C. DISCUSSION

1) Average Active Service Connections

Customer growth is the forecasted growth of a customer base in a given area. CWS and DRA use customer growth to project revenues for 2011-2012. The RCP, adopted in D.07-05-062 requires the number of customers to be forecast using a five-year average of the change in the number of customers by customer class, unless an unusual event occurs, in which case an adjustment to the five-year average may be made.[1] Table 2-2 and 2-3 at the end of this chapter summarize DRA and CWS' proposed average number of customers for each customer class in 2011 and 2012, respectively.

[1] D.07-05-062, Appendix A: RCP, p. A-23, footnote 4.

a. Residential, Business, Multi-Family, Public Authority, Industrial, and Other

In Redwood Unified, CWS proposes to forecast the number of customers using the three year average change in customers by customer class for the period 2006 through 2008 for the Residential, Business and Multi-family customer classes. For the Public Authority customer class, CWS proposes using the five year average for 2004 through 2008. DRA does not object to the use of the three-year average in this instance, provided this is applied to all customer classes uniformly. In Redwood, Coast Springs and Lucerne divisions, CWS proposes to use the five year average for 2004 through 2008. DRA agrees.

2) Metered Sales and Supply

Table 2-4 and 2-5 at the end of this chapter summarize DRA and CWS' proposed metered and flat rate sales in Redwood Valley for each customer class in 2011 and 2012, respectively.[2]

In response to DRA data request LWA-3 regarding the method CWS used to forecast sales in Redwood Valley, CWS stated:

> "Cal Water did not use the "new committee method" to estimate sales per customer for the residential, business and multi-family customers in the Lucerne, Unified and Coast Springs systems for its submittal in the 2009 GRC due to insufficient recorded historical sales data on those systems. Because the sales vary drastically among the sub-regions of the Redwood Valley District, detailed monthly sales data for each

[2] If DRA's sales forecast combined with DRA's other recommendations leads to higher bill increases than CWS presented in its notices to customers, DRA recommends that the total bill increases should be capped at CWS' proposed levels.

> sub-district is required in order to get meaningful results. Without a sufficient number of years of data for each rate area within the Redwood Valley region, the regression analysis for the sales forecast yields skewed results. Therefore, Cal Water used a simple average for the sub-districts in the Redwood Valley area based on the available recorded data."

Given the unique circumstances in this district, and the lack of data to apply the New Committee Method, DRA agrees with CWS' proposed method of calculating metered sales.

3) Operating Revenue

Tables 2-6 and 2-7 at the end of this chapter summarize DRA and CWS' forecasted operating revenue at present rates in 2011, at CWS proposed rates in 2011 and at present rates in 2012, respectively.

(a) Residential

CWS calculates operating revenue for metered residential customers by (1) taking the sum of estimated quantity revenues calculated for each meter size, and for each month based on three-year average sales patterns and (2) adding this to the estimated service charge revenues, calculated by taking the average number of customers each year and multiplying it by the service charge. CWS' method is outlined in detail in Appendix A of Chapter 2 in DRA's Bakersfield Report. DRA does not recommend any changes to this method.

(b) Business, Multi-family, Public Authority, Industrial and Other

CWS calculates operating revenues for business, multifamily, public authority, industrial, and other customers by (1) taking the sum of estimated quantity revenues for each meter size, for each month based on three-year average

sales patterns and (2) adding the quantity revenues to the estimated service charge revenues, calculated by multiplying the forecasted average number of customers by the meter charges. CWS' method is outlined in detail in Appendix A to Chapter 2 of DRA's Bakersfield Report. DRA does not recommend any changes to this method.

4) Unaccounted for Water

CWS estimates 23.91% unaccounted for water in Redwood Valley, Coast Springs division, and 28.29% unaccounted for water in Redwood Valley, Lucerne division. These estimates are based upon the five-year average recorded unaccounted for water in each division. DRA agrees. CWS estimates 28.4% unaccounted for water in Redwood Valley, Unified division. However, in response to data request MD7-013, questions 16 and 17, CWS stated that the data used to calculate unaccounted for water was missing for 2003-2004, and 2008. Because of a lack of accurate information regarding unaccounted for water, DRA recommends 8% unaccounted for water. This recommendation is consistent with CWS' proposal for all districts with flat meters where accurate information about the amount of water sold is unavailable.

D. CONCLUSION

1) Average Active Service Connections

The Commission should adopt DRA's recommended number of service connections.

2) Metered Sales and Supply

DRA agrees with CWS' proposal.

3) Operating Revenues

DRA accepts CWS' method for calculating operating revenues, with the following modifications for illustrative purposes: for all customer classes, DRA

used the present rates given by CWS at the time it filed the GRC application to illustrate Operating Revenues at Present Rates for 2011 and 2012. Also, DRA used the proposed rates from CWS' GRC application filed in July 2009 to calculate Operating Revenues at Proposed Rates. Appendix A to Chapter 2 for DRA's Bakersfield report in section B. 1. and B. 2. provides a detailed explanation.

4) Unaccounted for Water

DRA agrees with CWS' estimate of unaccounted for water, based upon the five-year average recorded unaccounted for water for the Coast Springs and Lucerne divisions. For the Unified division, CWS did not provide accurate data to calculate the five-year average, and DRA recommends 8% unaccounted for water.

TABLE 2-1

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
WATER SALES PER AVERAGE CUSTOMER

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(CCF/CONN./YR)			
Residential	30.1	30.1	0.0	0.0%
Business	158.7	158.7	0.0	0.0%
Multiple Family	0.0	0.0	0.0	0.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	0.0	0.0	0.0	0.0%
Other	0.0	0.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Res. Flat Rate	0.0	0.0	0.0	0.0%

TABLE 2-2

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
AVERAGE NUMBER OF CUSTOMERS

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	247	247	0	0.0%
Business	5	5	0	0.0%
Multiple Family	0	0	0	0.0%
Industrial	0	0	0	0.0%
Public Authority	2	2	0	0.0%
Other	0	0	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	254	254	0	0.0%
Flat Rate Connections				
Residential Flat	0	0	0	0.0%
Private Fire Protection	0	0	0	0.0%
Public Fire Protection	0	0	0	0.0%
Total flat rate connections	0	0	0	0.0%
Total Active Connections				
Include Fire Protection	254	254	0	0.0%
Exclude Fire Protection	254	254	0	0.0%

TABLE 2-3

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
AVERAGE NUMBER OF CUSTOMERS

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	248	248	0	0.0%
Business	5	5	0	0.0%
Multiple Family	0	0	0	0.0%
Industrial	0	0	0	0.0%
Public Authority	2	2	0	0.0%
Other	0	0	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	255	255	0	0.0%
Flat Rate Connections				
Residential Flat	0	0	0	0.0%
Private Fire Protection	0	0	0	0.0%
Public Fire Protection	0	0	0	0.0%
Total flat rate connections	0	0	0	0.0%
Total Active Connections				
Include Fire Protection	255	255	0	0.0%
Exclude Fire Protection	255	255	0	0.0%

TABLE 2-4

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
TOTAL SALES AND SUPPLY

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	7.4	7.4	0.0	0.0%
Business	0.8	0.8	0.0	0.0%
Multiple Family	0.0	0.0	0.0	0.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	0.0	0.0	0.0	0.0%
Other	0.0	0.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	8.2	8.2	0.0	0.0%
Flat Rate Sales				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water 23.91%	2.6	2.6	0.0	0.6%
Total delivered	10.8	10.8	0.0	0.1%
Supply				
Company Wells	10.8	10.8	0.0	0.0%
Total production	10.8	10.8	0.0	0.0%

TABLE 2-5

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
TOTAL SALES AND SUPPLY

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	7.5	6.3	-1.1	-15.0%
Business	0.8	0.7	-0.1	-15.0%
Multiple Family	0.0	0.0	0.0	0.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	0.0	0.0	0.0	0.0%
Other	0.0	0.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	8.3	7.0	(1.2)	-15.0%
Flat Rate Sales				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water 23.91%	2.6	2.2	(0.4)	-15.2%
Total delivered	10.9	9.2	(1.6)	-15.1%
Supply				
Company Wells	10.9	9.2	(1.7)	-15.6%
Total production	10.9	9.2	(1.7)	-15.6%

TABLE 2-6

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
OPERATING REVENUES

TEST YEAR 2011

(AT PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
WRAM Revenues				
Residential	129.8	129.8	0.0	0.0%
Business	13.8	13.8	0.0	0.0%
Multiple Family	0.0	0.0	0.0	0.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	0.0	0.0	0.0	0.0%
Other	0.0	0.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Recycled	0.0	0.0	0.0	0.0%
Total General Metered	143.6	143.6	0.0	0.0%
Non-WRAM Revenues				
Service Charges	113.8	113.8	0.0	0.0%
Residential Flat	0.0	0.0	0.0	0.0%
Private Fire Protection	0.0	0.0	0.0	0.0%
Public Fire Protection	0.0	0.0	0.0	0.0%
Other	0.0	0.0	0.0	0.0%
Total Flat Rate	113.8	113.8	0.0	0.0%
Deferred Revenues	0.0	0.0	0.0	0.0%
Total revenues	257.4	257.5	0.1	0.0%

TABLE 2-7

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
OPERATING REVENUES

TEST YEAR 2011

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
WRAM Revenues				
Residential	398.4	398.4	0.0	0.0%
Business	42.5	42.5	0.0	0.0%
Multiple Family	0.0	0.0	0.0	0.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	0.0	0.0	0.0	0.0%
Other	0.0	0.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Recycled	0.0	0.0	0.0	0.0%
Total General Metered	440.9	440.9	0.0	0.0%
Non-WRAM Revenues				
Service Charges	214.7	214.7	0.0	0.0%
Residential Flat	0.0	0.0	0.0	0.0%
Private Fire Protection	0.0	0.0	0.0	0.0%
Public Fire Protection	0.0	0.0	0.0	0.0%
Other	0.0	0.0	0.0	0.0%
Total Flat Rate	214.7	214.7	0.0	0.0%
Deferred Revenues	0.0	0.0	0.0	0.0%
Total revenues	655.6	655.6	0.0	0.0%

TABLE 2-1

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
WATER SALES PER AVERAGE CUSTOMER

TEST YEAR 2011

	Item	DRA	CWS	CWS exceeds DRA Amount	%
		(CCF/CONN./YR)			
	Residential	80.4	80.4	0.0	0.0%
	Business	244.1	244.1	0.0	0.0%
	Multiple Family	1,542.3	1,542.3	0.0	0.0%
	Industrial	0.0	0.0	0.0	0.0%
	Public Authority	288.9	288.9	0.0	0.0%
	Other	0.0	0.0	0.0	0.0%
	Irrigation	0.0	0.0	0.0	0.0%
1	Res. Flat Rate	0.0	0.0	0.0	0.0%

TABLE 2-2

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
AVERAGE NUMBER OF CUSTOMERS

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	1,210	1,210	0	0.0%
Business	46	46	0	0.0%
Multiple Family	14	14	0	0.0%
Industrial	0	0	0	0.0%
Public Authority	9	9	0	0.0%
Other	0	0	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	1,279	1,279	0	0.0%
Flat Rate Connections				
Residential Flat	0	0	0	0.0%
Private Fire Protection	0	0	0	0.0%
Public Fire Protection	0	0	0	0.0%
Total flat rate connections	0	0	0	0.0%
Total Active Connections				
Include Fire Protection	1,279	1,279	0	0.0%
Exclude Fire Protection	1,279	1,279	0	0.0%

TABLE 2-3

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
AVERAGE NUMBER OF CUSTOMERS

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	1,216	1,216	0	0.0%
Business	45	45	0	0.0%
Multiple Family	14	14	0	0.0%
Industrial	0	0	0	0.0%
Public Authority	9	9	0	0.0%
Other	0	0	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	1,284	1,284	0	0.0%
Flat Rate Connections				
Residential Flat	0	0	0	0.0%
Private Fire Protection	0	0	0	0.0%
Public Fire Protection	0	0	0	0.0%
Total flat rate connections	0	0	0	0.0%
Total Active Connections				
Include Fire Protection	1,284	1,284	0	0.0%
Exclude Fire Protection	1,284	1,284	0	0.0%

TABLE 2-4

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
TOTAL SALES AND SUPPLY

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	97.3	97.3	0.0	0.0%
Business	11.2	11.2	0.0	0.0%
Multiple Family	21.6	21.6	0.0	0.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	2.6	2.6	0.0	0.0%
Other	0.0	0.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	132.7	132.7	0.0	0.0%
Flat Rate Sales				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water 28.29%	52.3	52.3	(0.0)	-0.1%
Total delivered	185.0	185.0	(0.0)	0.0%
Supply				
Purchases - Yolo County	185.0	185.0	0.0	0.0%
Total production	185.0	185.0	0.0	0.0%

TABLE 2-5

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
TOTAL SALES AND SUPPLY

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	97.8	96.3	-1.5	-1.5%
Business	11.0	10.8	-0.2	-1.5%
Multiple Family	21.6	21.3	-0.3	-1.5%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	2.6	2.6	0.0	-1.5%
Other	0.0	0.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	132.9	130.9	(2.0)	-1.5%
Flat Rate Sales				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water 28.29%	52.4	51.6	(0.8)	-1.6%
Total delivered	185.4	182.5	(2.8)	-1.5%
Supply				
Purchases - Yolo County	185.3	182.5	(2.8)	-1.5%
Total production	185.3	182.5	(2.8)	-1.5%

TABLE 2-6

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
OPERATING REVENUES

TEST YEAR 2011

(AT PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
WRAM Revenues				
Residential	529.7	529.7	0.0	0.0%
Business	61.1	61.1	0.0	0.0%
Multiple Family	117.6	117.6	0.0	0.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	14.2	14.2	0.0	0.0%
Other	0.0	0.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Recycled	0.0	0.0	0.0	0.0%
Total General Metered	722.6	722.6	0.0	0.0%
Non-WRAM Revenues				
Service Charges	520.2	520.2	0.0	0.0%
Residential Flat	0.0	0.0	0.0	0.0%
Private Fire Protection	0.0	0.0	0.0	0.0%
Public Fire Protection	0.0	0.0	0.0	0.0%
Other	0.0	0.0	0.0	0.0%
Total Flat Rate	520.2	520.2	0.0	0.0%
Deferred Revenues	0.0	0.0	0.0	0.0%
Total revenues	1,242.8	1,242.8	0.0	0.0%

TABLE 2-7

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
OPERATING REVENUES

TEST YEAR 2011

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
WRAM Revenues				
Residential	927.4	927.4	0.0	0.0%
Business	107.0	107.0	0.0	0.0%
Multiple Family	205.8	205.8	0.0	0.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	24.8	24.8	0.0	0.0%
Other	0.0	0.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Recycled	0.0	0.0	0.0	0.0%
Total General Metered	1,265.0	1,265.1	0.1	0.0%
Non-WRAM Revenues				
Service Charges	660.2	660.2	0.0	0.0%
Residential Flat	0.0	0.0	0.0	0.0%
Private Fire Protection	0.0	0.0	0.0	0.0%
Public Fire Protection	0.0	0.0	0.0	0.0%
Other	0.0	0.0	0.0	0.0%
Total Flat Rate	660.2	660.2	0.0	0.0%
Deferred Revenues	0.0	0.0	0.0	0.0%
Total revenues	1,925.2	1,925.4	0.2	0.0%

TABLE 2-1

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
WATER SALES PER AVERAGE CUSTOMER

TEST YEAR 2011

	Item	DRA	CWS	CWS exceeds DRA Amount	%
		(CCF/CONN./YR)			
	Residential	81.9	81.9	0.0	0.0%
	Business	202.7	202.7	0.0	0.0%
	Multiple Family	813.6	813.6	0.0	0.0%
	Industrial	0.0	0.0	0.0	0.0%
	Public Authority	166.7	83.3	(83.3)	-50.0%
	Other	0.0	0.0	0.0	0.0%
	Irrigation	0.0	0.0	0.0	0.0%
1	Res. Flat Rate	0.0	0.0	0.0	0.0%

TABLE 2-2

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
AVERAGE NUMBER OF CUSTOMERS

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	410	410	0	0.0%
Business	7	7	0	0.0%
Multiple Family	3	3	0	0.0%
Industrial	0	0	0	0.0%
Public Authority	3	6	3	100.0%
Other	0	0	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	423	426	3	0.7%
Flat Rate Connections				
Residential Flat	0	0	0	0.0%
Private Fire Protection	0	0	0	0.0%
Public Fire Protection	0	0	0	0.0%
Total flat rate connections	0	0	0	0.0%
Total Active Connections				
Include Fire Protection	423	426	3	0.7%
Exclude Fire Protection	423	426	3	0.7%

TABLE 2-3

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
AVERAGE NUMBER OF CUSTOMERS

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	409	409	0	0.0%
Business	7	7	0	0.0%
Multiple Family	3	3	0	0.0%
Industrial	0	0	0	0.0%
Public Authority	3	7	4	133.3%
Other	0	0	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	422	426	4	0.9%
Flat Rate Connections				
Residential Flat	0	0	0	0.0%
Private Fire Protection	0	0	0	0.0%
Public Fire Protection	0	0	0	0.0%
Total flat rate connections	0	0	0	0.0%
Total Active Connections				
Include Fire Protection	422	426	4	0.9%
Exclude Fire Protection	422	426	4	0.9%

TABLE 2-4

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
TOTAL SALES AND SUPPLY

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	33.6	33.6	0.0	0.0%
Business	1.4	1.4	0.0	0.0%
Multiple Family	2.4	2.4	0.0	0.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	0.5	0.5	0.0	0.0%
Other	0.0	0.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	37.9	37.9	0.0	0.0%
Flat Rate Sales				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water 28.36%	15.0	15.0	(0.0)	-0.1%
Total delivered	53.0	52.9	(0.0)	0.0%
Supply				
Company Wells	50.1	50.1	0.0	0.0%
Purchases - Rancho Del Paradiso	2.8	2.8	0.0	0.0%
Total production	52.9	52.9	0.0	0.0%

TABLE 2-5

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
TOTAL SALES AND SUPPLY

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	33.5	33.0	-0.5	-1.5%
Business	1.4	1.4	0.0	-1.5%
Multiple Family	2.4	2.4	0.0	-1.5%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	0.5	0.5	0.0	-1.4%
Other	0.0	0.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	37.9	37.3	(0.6)	-1.5%
Flat Rate Sales				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water 28.36%	15.0	14.8	(0.2)	-1.2%
Total delivered	52.8	52.1	(0.8)	-1.4%
Supply				
Company Wells	50.0	49.3	(0.7)	-1.4%
Purchases - Rancho Del Paradiso	2.8	2.8	0.0	0.0%
Total production	52.8	52.1	(0.7)	-1.3%

TABLE 2-6

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
OPERATING REVENUES

TEST YEAR 2011

(AT PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
WRAM Revenues				
Residential	223.5	223.5	0.0	0.0%
Business	9.4	9.4	0.0	0.0%
Multiple Family	16.2	16.2	0.0	0.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	3.3	3.3	0.0	0.0%
Other	0.0	0.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Recycled	0.0	0.0	0.0	0.0%
Total General Metered	252.4	252.4	0.0	0.0%
Non-WRAM Revenues				
Service Charges	233.5	243.4	9.9	4.2%
Residential Flat	0.0	0.0	0.0	0.0%
Private Fire Protection	0.0	0.0	0.0	0.0%
Public Fire Protection	0.0	0.0	0.0	0.0%
Other	0.0	0.0	0.0	0.0%
Total Flat Rate	233.5	243.4	9.9	4.2%
Deferred Revenues	0.0	0.0	0.0	0.0%
Total revenues	485.9	495.9	10.0	2.1%

TABLE 2-7

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
OPERATING REVENUES

TEST YEAR 2011

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
WRAM Revenues				
Residential	497.3	497.3	0.0	0.0%
Business	21.0	21.0	0.0	0.0%
Multiple Family	36.1	36.1	0.0	0.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	7.4	7.4	0.0	0.0%
Other	0.0	0.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Recycled	0.0	0.0	0.0	0.0%
Total General Metered	561.8	561.8	0.0	0.0%
Non-WRAM Revenues				
Service Charges	348.7	362.4	13.7	3.9%
Residential Flat	0.0	0.0	0.0	0.0%
Private Fire Protection	0.0	0.0	0.0	0.0%
Public Fire Protection	0.0	0.0	0.0	0.0%
Other	0.0	0.0	0.0	0.0%
Total Flat Rate	348.7	362.4	13.7	3.9%
Deferred Revenues	0.0	0.0	0.0	0.0%
Total revenues	910.5	924.3	13.8	1.5%

CHAPTER 3: OPERATIONS AND MAINTENANCE EXPENSES

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations on Operation and Maintenance ("O&M") expenses in the Redwood Valley District of California Water Service Company ("CWS") for Test Year 2011. The Redwood Valley District consists of three independent ratemaking areas – Coast Springs, Lucerne, and Unified rate areas. Table 3-A, Table 3-B, and Table 3-C show comparisons of total expense estimates at present rates for Test Year for the Coast Springs, Lucerne, and Unified rate areas, respectively.

Table 3-A: Comparison of Total O&M Expense Estimates

– Coast Springs Rate Area

Test Year 2011			
Items	DRA	CWS	CWS Exceeds DRA
O&M Expenses	$154,200	$169,700	$15,500 or 10.1%

Table 3-B: Comparison of Total O&M Expense Estimates

– Lucerne Rate Area

Test Year 2011			
Items	DRA	CWS	CWS Exceeds DRA
O&M Expenses	$555,800	$625,700	$69,900 or 12.6%

Table 3-C: Comparison of Total O&M Expense Estimates

– Unified Rate Area

Test Year 2011			
Items	DRA	CWS	CWS Exceeds DRA
O&M Expenses	$219,900	$240,800	$20,900 or 9.5%

B. SUMMARY OF RECOMMENDATIONS

For the Coast Springs Area, DRA's estimate for Total O&M expenses for Test Year 2011 is $154,200. CWS' Test Year 2011 estimate is $169,700. CWS' estimate exceeds DRA's by $15,500, or 10.1%. For the Lucerne Area, DRA's estimate for Total O&M expenses for Test Year 2011 is $555,800. CWS' Test Year 2011 estimate is $625,700. CWS' estimate exceeds DRA's by $69,900, or 12.6%. For the Unified Area, DRA's estimate for Total O&M expenses for Test Year 2011 is $219,900. CWS' Test Year 2011 estimate is $240,800. CWS' estimate exceeds DRA's by $20,900, or 9.5%. DRA recommends that the Commission adopt its O&M expense estimates for all three ratemaking areas.

C. DISCUSSION

COAST SPRINGS RATE AREA

DRA conducted an independent analysis of CWS' workpapers and methods of estimating O&M Expenses for Test Year 2011. CWS uses a five-year average of historical expenses adjusted for inflation as the basis for projecting Test Year 2011 with the exception of Purchased Chemicals, Purchased Power, Postage, Transportation, and Contracted Maintenance.

DRA utilizes multiple regression analyses and other methods including last recorded year (2008) data adjusted for inflation and a five-year (2004-2008) average of historical expenses adjusted for inflation to assess the reasonableness of CWS' estimates.

Both DRA and CWS apply the various escalation factors, published by the DRA Energy Cost of Service Branch ("ECOS"), dated May 31, 2009, to develop the level of expenses. Tables 3-1 summarize DRA's recommended O&M expenses and compare them to CWS' requests for Test Year 2011. Each expense item listed is discussed below.

1) OPERATION EXPENSES

(a) PURCHASED POWER

Purchased Power is the cost of electricity from Pacific Gas and Electric needed to operate a district, including the power used in pumping and delivering water. Estimating Purchased Power expenses is a function of (a) the estimated production and (b) the estimated cost per kilowatt hour ("KWH"), taking into account the historical ratios of electricity used to the amount of water pumped. Therefore, the cost of purchased power may vary with the changes in the estimates of either production, cost per KWH of electricity, or a combination of both.

CWS generally estimates cost per KWH using one of the following two methods – (1) if a linear regression analysis shows a strong relationship between cost per KWH and timing, CWS uses its linear regression forecast methodology of cost per KWH based on a two-year 12-month rolling average of actual cost per KWH for estimating Purchased Power expenses; otherwise, (2) CWS uses a two-year average of 12-month rolling averages of actual cost per KWH in estimating Purchased Power expenses.

Based on DRA's review of CWS' supporting workpapers, CWS' cost per KWH of $0.17206 is based on two year (1998-1999) 12-month rolling averages

forecast methodology[3]. CWS' Purchased Power estimate is $6,500 in Test Year 2011. DRA accepts CWS' methodology and estimate of Purchased Power expenses, and therefore recommends that the Commission adopt CWS' estimate.

(b) PURCHASED CHEMICALS

CWS' estimate of Purchased Chemicals expenses is $1,700 in Test Year 2011 based on a four-year (2005-2008) average cost per unit of production adjusted for inflation and the estimated production. DRA's estimate is $1,600 in Test Year based on a five-year (2004-2008) average cost per unit of production adjusted for inflation and the DRA estimated water production. Using a five-year average would better reflect CWS' historical trends. Difference between DRA and CWS estimates is due to differences in estimating average cost per unit. DRA recommends that the Commission adopt its estimate.

(c) OPERATION PAYROLL

For Operations Payroll expenses please refer to the Payroll Report.

(d) POSTAGE

CWS' estimate of Postage expenses is $1,700 in Test Year 2011. CWS' postage cost is a function of (a) the 2008's unit cost per customer service or connection, (b) the estimated numbers of connection, and (c) a 4.8% increase in postal first-class rate that was effective May 11, 2009[4], plus inflation. DRA adjusts CWS' estimate by (1) reducing the postal rate increase from 4.80% to 3.17% in May 11, 2009, and (2) excluding the escalation factors from DRA's postage expenses estimate. Since CWS primarily utilizes bulk rates (Classes A5, A6, A7, and A8) for its mailings, DRA computed the average bulk rate increase based on reviewing the bulk rates schedule. DRA concludes the average bulk rate

[3] There were no more updated data of cost per KWH available to be used in forecasting.

[4] According to CWS' General Report, dated July 1, 2009, p25, 'District Postage'

increase is 3.17%, which is what DRA uses in its estimates. Also, as future postal rate increases are unknown, an escalation factor should be excluded from the calculation. DRA's estimate of Postage expenses is $1,500 for Test Year 2011, which is $200 less than CWS' estimate. DRA recommends that the Commission adopt its estimate.

(e) OPERATION TRANSPORTATION

According to last year's recorded data ratios, total Transportation expense includes three components: Operation, Maintenance, and Administration and General ("A&G").

CWS' estimate for total Transportation expense is $22,300 in Test Year 2011 based on the last recorded year (2008) adjusted for inflation. The total is broken down as $18,000, $4,100, and $200 for Operation, Maintenance, and A&G, respectively. CWS' estimated total Transportation expenses include $7,300 of costs associated with one additional vehicle requested by CWS in the year 2009.

DRA's estimate for total Transportation expense is $14,800 in Test Year 2011 based on the last recorded year (2008) adjusted for inflation. The total is broken down as $12,000, $2,700, and $100 for Operation, Maintenance, and A&G, respectively. DRA excluded the costs associated with one additional vehicle requested by CWS in the year 2009 based on the recommendation by DRA payroll witness that no additional new employees be allowed. Please refer to the Payroll Report for details. DRA recommends that the Commission adopt its estimate.

(f) UNCOLLECTIBLES

An estimate of Uncollectible expenses is a function of (a) the estimated total revenue and (b) a five-year average (when appropriate) of historical uncollectible rates. DRA agrees with CWS' methodology in estimating Uncollectible expenses. CWS estimated no Uncollectible expenses for Test Year

2011 based on a five-year (2004-2008) average of uncollectible rate of 0% (i.e., no recorded historical uncollectible expenses from 2004 through 2008). DRA accepts CWS' estimate of Uncollectible expenses, and therefore recommends that the Commission adopt CWS' estimate.

(g) SOURCE OF SUPPLY

CWS' estimate for Source of Supply expenses is $100 in Test Year 2011 based on a five-year (2004 to 2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(h) PUMPING EXPENSES

Pumping expenses include the expenses of waste oil disposal, inspection of storage tanks related to pumping, testing and cleaning pumps and motors including supplies such as lubricants, fuses, gaskets, charts and the like, and power used for pumping.[5] CWS' estimate for Pumping expenses is $43,600 in Test Year 2011 based on a five-year average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(i) WATER TREATMENT

Water Treatment expenses include expenses for operating filter and treatment plants, chlorinating equipment, outside laboratory expenses, laboratory supplies, postage on water samples, water quality notices and advertisements, accrual for DPH fees including system inspections, water treatment operators' tests and certification costs, hazardous material disposal, and environmental handling and reporting.

[5] Per CWS' response to DRA data request, RYY-005, Question 5, dated October 19, 2009.

For Water Treatment expenses, CWS' estimate is $30,800 in Test Year 2011 based on the five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(j) TRANSMISSION AND DISTRIBUTION

Transmission and Distribution ("T&D") expenses include expenses incurred in operating distribution reservoirs and tanks, including cleaning and flushing, care of grounds, flushing of mains and services, potholing (digging to verify depth and location of pipelines), corrosion tests, fire flow tests, locating and operating valves and supplies necessary to operate the District's transmission and distribution system. For T&D expenses, CWS' estimate is $1,600 in Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(k) CUSTOMER ACCOUNTING

Customer Accounting expenses include all costs related to customer billing such as bill stock, envelopes, billing inserts (except for conservation), fees paid to collection agencies and pay stations, bank charges, alarm systems, telephone charges including meter reading communication lines, janitorial services for the commercial office, and other expenses related to billing customers. For Customer Accounting expenses, CWS' estimate is $4,400 for Test Year 2011 based on a five-year average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, therefore recommends that the Commission adopt CWS' estimate.

(l) CONSERVATION EXPENSES

For Conservation Expenses, please refer to the Conservation Expenses report.

2) MAINTENANCE EXPENSES

(a) MAINTENANCE PAYROLL

For Maintenance Payroll Expenses, please refer to the Payroll report.

(b) MAINTENANCE TRANSPORTATION

For an estimate of Maintenance Transportation expense, please refer to Section (e) of this Chapter.

(c) STORES

CWS estimates no Stores expenses for Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(d) CONTRACTED MAINTENANCE

CWS' estimate for Contracted Maintenance expenses is $13,500 in Test Year 2011 based on the last recorded year (2008) adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

LUCERNE RATE AREA

DRA conducted an independent analysis of CWS' workpapers and methods of estimating O&M Expenses for Test Year 2011. CWS uses a five-year average of historical expenses adjusted for inflation as the basis for projecting Test Year 2011 with the exception of Purchased Water, Purchased Chemicals, Purchased Power, Postage, and Transportation.

DRA utilizes multiple regression analyses and other methods including last recorded year (2008) data adjusted for inflation and a five-year (2004-2008)

average of historical expenses adjusted for inflation to assess the reasonableness of CWS' estimates.

Both DRA and CWS apply the various escalation factors, published by the DRA Energy Cost of Service Branch ("ECOS"), dated May 31, 2009, to develop the level of expenses. Table 3-1 summarizes DRA's recommended O&M expenses and compares them to CWS' requests for Test Year 2011. Each expense item listed is discussed below.

3) OPERATION EXPENSES

(a) PURCHASED WATER

CWS estimates Purchased Water in Test Year 2011 to be $22,300, which is calculated by multiplying the quantity of Purchased Water by the unit cost per acre foot per CWS' contract with Yolo County Flood Control and Water Conservation District. After reviewing CWS' supporting documents, DRA accepts CWS' methodology. DRA's estimate is $17,500 in Test Year. Difference between DRA's and CWS' estimates is due to differences in estimated Purchased Water. DRA recommends that the Commission adopt its estimate.

(b) PURCHASED POWER

Purchased Power is the cost of electricity from Pacific Gas and Electric needed to operate a district, including the power used in pumping and delivering water. Estimating Purchased Power expenses is a function of (a) the estimated production and (b) the estimated cost per kilowatt hour ("KWH"), taking into account the historical ratios of electricity used to the amount of water pumped. Therefore, the cost of purchased power may vary with the changes in the estimates of either production, cost per KWH of electricity, or a combination of both.

CWS generally estimates cost per KWH using one of the following two methods – (1) if a linear regression analysis shows a strong relationship between cost per KWH and timing, CWS uses its linear regression forecast methodology of

cost per KWH based on a two-year 12-month rolling average of actual cost per KWH for estimating Purchased Power expenses; otherwise, (2) a two-year average of 12-month rolling averages of actual cost per KWH is used in estimating Purchased Power expenses.

Based on DRA's review of CWS' supporting workpapers, CWS' cost per KWH of $0.15844 is based on two-year (2003-2004) 12-month rolling averages forecast methodology. DRA accepted CWS' methodology in estimating purchased power costs.

CWS' Purchased Power estimate is $49,600 in Test Year 2011. DRA estimates the Purchased Power expenses to be $38,800, which is $10,800 less than CWS' estimate. The difference between DRA and CWS estimates is due to differences in water production estimates. DRA recommends that the Commission adopt its estimate.

(c) PURCHASED CHEMICALS

CWS' estimate of Purchased Chemicals expenses is $45,500 in Test Year 2011 based on a three-year (2006-2008) average cost per unit of production adjusted for inflation and the estimated production. DRA's estimate is $41,200 in Test Year based on a five-year (2004-2008) average cost per unit of production adjusted for inflation and the DRA estimated water production. Using a five-year average would better reflect CWS' historical trends. Difference between DRA and CWS estimates is due to differences in estimating average cost per unit. DRA recommends that the Commission adopt its estimate.

(d) OPERATION PAYROLL

For Operations Payroll expenses please refer to the Payroll Report.

(e) POSTAGE

CWS' estimate of Postage expenses is $7,200 in Test Year 2011. CWS' postage cost is a function of (a) the 2008's unit cost per customer service or

connection, (b) the estimated numbers of connection, and (c) a 4.8% increase in postal first-class rate that was effective May 11, 2009[6], plus inflation. DRA adjusts CWS' estimate by (1) reducing the postal rate increase from 4.80% to 3.17% in May 11, 2009, and (2) excluding the escalation factors from DRA's postage expense estimate. Since CWS primarily utilizes bulk rates (Classes A5, A6, A7, and A8) for its mailings, DRA computed the average bulk rate increase based on reviewing the bulk rates schedule. DRA concludes the average bulk rate increase is 3.17%, which is what DRA uses in its estimates. Also, as future postal rate increases are unknown, an escalation factor should be excluded from the calculation. DRA's estimate of Postage expenses is $6,700 for Test Year 2011, which is $500 less than CWS' estimate. DRA recommends that the Commission adopt its estimate.

(f) OPERATION TRANSPORTATION

According to last year's recorded data ratios, total Transportation expense includes three components: Operation, Maintenance, and Administration and General ("A&G").

CWS' estimate for total Transportation expense is $30,800 in Test Year 2011 based on the last recorded year (2008) adjusted for inflation. The total is broken down as $23,000, $7,100, and $700 for Operation, Maintenance, and A&G, respectively.[7] CWS did not include any new vehicle expense in its Transportation expense estimates.

DRA's estimate for total Transportation expense is $27,400 in Test Year 2011 based on the five-year (2004-2008) average adjusted for inflation. The total is broken down as $20,500, $6,300, and $600 for Operation, Maintenance, and

[6] According to CWS' General Report, dated July 1, 2009, p25, 'District Postage'

[7] The sum of allocated Transportation expenses to Operation, Maintenance, and A&G does not agree with the total Transportation expense due to rounding. CWS' Amounts present here are based strictly on CWS' original application workpaper, Table 5-B4.

A&G, respectively. Using a five-year average methodology would better reflect CWS' historical trends. Therefore, DRA recommends that the Commission adopt its estimate.

(g) UNCOLLECTIBLES

An estimate of Uncollectible expenses is a function of (a) the estimated total revenue and (b) a five-year average (when appropriate) of historical uncollectible rates. DRA agrees with CWS' methodology in estimating Uncollectible expenses. CWS' estimate for Uncollectible expenses is $13,200 in Test Year 2011 based on a five-year (2004-2008) average of uncollectible rate of 1.06087%. DRA's estimate for uncollectible expenses is also $13,200. DRA recommends that the Commission adopt its estimate.

(h) SOURCE OF SUPPLY

CWS' estimate for Source of Supply expenses is $6,500 in Test Year 2011 based on a five-year (2004 to 2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(i) PUMPING EXPENSES

Pumping expenses include the expenses of waste oil disposal, inspection of storage tanks related to pumping, testing and cleaning pumps and motors including supplies such as lubricants, fuses, gaskets, charts and the like, and power used for pumping.[8] CWS' estimate for Pumping expenses is $800 in Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

[8] Per CWS' response to DRA data request, RYY-005, Question 5, dated October 19, 2009.

(j) WATER TREATMENT

Water Treatment expenses include expenses for operating filter and treatment plants, chlorinating equipment, outside laboratory expenses, laboratory supplies, postage on water samples, water quality notices and advertisements, accrual for DPH fees including system inspections, water treatment operators' tests and certification costs, hazardous material disposal, and environmental handling and reporting.

For Water Treatment expenses, CWS' estimate is $33,500 in Test Year 2011 based on the five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(k) TRANSMISSION AND DISTRIBUTION

Transmission and Distribution ("T&D") expenses include expenses incurred in operating distribution reservoirs and tanks, including cleaning and flushing, care of grounds, flushing of mains and services, potholing (digging to verify depth and location of pipelines), corrosion tests, fire flow tests, locating and operating valves and supplies necessary to operate the District's transmission and distribution system. For T&D expenses, CWS' estimate is $10,200 in Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, therefore recommends that the Commission adopt CWS' estimate.

(l) CUSTOMER ACCOUNTING

Customer Accounting expenses include all costs related to customer billing such as bill stock, envelopes, billing inserts (except for conservation), fees paid to collection agencies and pay stations, bank charges, alarm systems, telephone charges including meter reading communication lines, janitorial services for the commercial office, and other expenses related to billing customers. For Customer

Accounting expenses, CWS' estimate is $39,300 for Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(m) CONSERVATION EXPENSES

For Conservation Expenses, please refer to the Conservation Expenses report.

4) MAINTENANCE EXPENSES

(a) MAINTENANCE PAYROLL

For Maintenance Payroll Expenses, please refer to the Payroll report.

(b) MAINTENANCE TRANSPORTATION

For an estimate of Maintenance Transportation expense, please refer to Section (f) of this Chapter.

(c) STORES

CWS' estimate for Stores expenses is $200 in Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(d) CONTRACTED MAINTENANCE

CWS' estimate for Contracted Maintenance expenses is $53,900 in Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

UNIFIED RATE AREA

DRA conducted an independent analysis of CWS' workpapers and methods of estimating O&M Expenses for Test Year 2011. CWS uses a five-year average of historical expenses adjusted for inflation as the basis for projecting Test Year 2011 with the exception of Purchased Water, Purchased Chemicals, Purchased Power, Postage, Transportation, and Contracted Maintenance.

DRA utilizes multiple regression analyses and other methods including last recorded year (2008) data adjusted for inflation and a five-year (2004-2008) average of historical expenses adjusted for inflation to assess the reasonableness of CWS' estimates.

Both DRA and CWS apply the various escalation factors, published by the DRA Energy Cost of Service Branch ("ECOS"), dated May 31, 2009, to develop the level of expenses. Table 3-1 summarizes DRA's recommended O&M expenses and compares them to CWS' requests for Test Year 2011. Each expense item listed is discussed below.

5) OPERATION EXPENSES

(a) PURCHASED WATER

CWS estimates Purchased Water in Test Year 2011 to be $15,500. CWS' Purchased Water expenses consist of two components: (i) the Base Rate Service Charge, and (ii) the water usage component, which was calculated by multiplying the quantity of Purchased Water by the usage rate that was specified by the Sweetwater Springs Water District. After reviewing CWS' supporting documents, DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(b) PURCHASED POWER

Purchased Power is the cost of electricity from Pacific Gas and Electric needed to operate a district, including the power used in pumping and delivering water. Estimating Purchased Power expenses is a function of (a) the estimated production and (b) the estimated cost per kilowatt hour ("KWH"), taking into account the historical ratios of electricity used to the amount of water pumped. Therefore, the cost of purchased power may vary with the changes in the estimates of either production, cost per KWH of electricity, or a combination of both.

CWS generally estimates cost per KWH using one of the following two methods – (1) if a linear regression analysis shows a strong relationship between cost per KWH and timing, CWS uses its linear regression forecast methodology of cost per KWH based on a two-year 12-month rolling average of actual cost per KWH for estimating Purchased Power expenses; otherwise, (2) a two-year average of 12-month rolling averages of actual cost per KWH is used in estimating Purchased Power expenses.

Based on DRA's review of CWS' supporting workpapers, CWS' cost per KWH of $0.15322 is based on two year (1998-1999) 12-month rolling averages forecast methodology. CWS' Purchased Power estimate is $13,600 in Test Year 2011. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(c) PURCHASED CHEMICALS

CWS' estimate Purchased Chemicals expenses is $1,900 in Test Year 2011 based on a two-year (2007-2008) average cost per unit of production adjusted for inflation and the estimated production. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(d) OPERATIONS PAYROLL

For Operations Payroll expenses please refer to the Payroll Report.

(e) POSTAGE

CWS' estimate of Postage expenses is $3,500 in Test Year 2011. CWS' postage cost is a function of (a) the 2008's unit cost per customer service or connection, (b) the estimated numbers of connection, and (c) a 4.8% increase in postal first-class rate that was effective May 11, 2009[9], plus inflation. DRA adjusts CWS' estimate by (1) reducing the postal rate increase from 4.80% to 3.17% in May 11, 2009, and (2) excluding the escalation factors from DRA's postage expense estimate. Since CWS primarily utilizes bulk rates (Classes A5, A6, A7, and A8) for its mailings, DRA computed the average bulk rate increase based on reviewing the bulk rates schedule. DRA concludes the average bulk rate increase is 3.17%, which is what DRA uses in its estimates. Also, as future postal rate increases are unknown, an escalation factor should not be excluded from the calculation. DRA's estimate of Postage expenses is $3,200 for Test Year 2011, which is $300 less than CWS' estimate. DRA recommends that the Commission adopt its estimate.

(f) OPERATION TRANSPORTATION

According to last year's recorded data ratios, total Transportation expense includes three components: Operation, Maintenance, and Administration and General ("A&G").

CWS' estimate for total Transportation expense is $20,600 in Test Year 2011 based on the last recorded year (2008) adjusted for inflation. The total is broken down as $9,300, $11,000, and $300 for Operation, Maintenance, and

[9] According to CWS' General Report, dated July 1, 2009, p25, 'District Postage'

A&G, respectively. CWS did not include any new vehicle expense in its Transportation expense estimates.

DRA's estimate for total Transportation expense is $16,600 in Test Year 2011 based on the five-year (2004-2008) adjusted for inflation. The total is broken down as $7,500, $8,800, and $200 for Operations, Maintenance, and A&G, respectively.[10] Using a five-year average would better reflect CWS' historical trends. DRA recommends that the Commission adopt its estimate.

(g) UNCOLLECTIBLES

An estimate of Uncollectible expenses is a function of (a) the estimated total revenue and (b) a five-year average (when appropriate) of historical uncollectible rates. DRA agrees with CWS' methodology in estimating Uncollectible expenses. CWS' estimate for Uncollectible expenses is $2,200 in Test Year 2011 based on a five-year (2004-2008) average of uncollectible rate of 0.44492%. DRA's estimate for uncollectible expenses is also $2,200. DRA recommends that the Commission adopt its estimate.

(h) SOURCE OF SUPPLY

CWS' estimate for Source of Supply expenses is $2,100 in Test Year 2011 based on a five-year (2004 to 2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(i) PUMPING EXPENSES

Pumping expenses include the expenses of waste oil disposal, inspection of storage tanks related to pumping, testing and cleaning pumps and motors including supplies such as lubricants, fuses, gaskets, charts and the like, and power used for

[10] The sum of allocated Transportation expenses to Operation, Maintenance, and A&G does not agree with the total Transportation expense due to rounding.

pumping.[11] CWS' estimate for Pumping expenses is $2,600 in Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(j) WATER TREATMENT

Water Treatment expenses include expenses for operating filter and treatment plants, chlorinating equipment, outside laboratory expenses, laboratory supplies, postage on water samples, water quality notices and advertisements, accrual for DPH fees including system inspections, water treatment operators' tests and certification costs, hazardous material disposal, and environmental handling and reporting.

For Water Treatment expenses, CWS' estimate is $14,800 in Test Year 2011 based on the five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(k) TRANSMISSION AND DISTRIBUTION

Transmission and Distribution ("T&D") expenses include expenses incurred in operating distribution reservoirs and tanks, including cleaning and flushing, care of grounds, flushing of mains and services, potholing (digging to verify depth and location of pipelines), corrosion tests, fire flow tests, locating and operating valves and supplies necessary to operate the District's transmission and distribution system. For T&D expenses, CWS' estimate is $7,000 in Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, therefore recommends that the Commission adopt CWS' estimate.

[11] Per CWS' response to DRA data request, RYY-005, Question 5, dated October 19, 2009.

(l) CUSTOMER ACCOUNTING

Customer Accounting expenses include all costs related to customer billing such as bill stock, envelopes, billing inserts (except for conservation), fees paid to collection agencies and pay stations, bank charges, alarm systems, telephone charges including meter reading communication lines, janitorial services for the commercial office, and other expenses related to billing customers. For Customer Accounting expenses, CWS' estimate is $17,700 for Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, therefore recommends that the Commission adopt CWS' estimate.

(m) CONSERVATION EXPENSES

For Conservation Expenses, please refer to the Conservation Expenses report.

6) MAINTENANCE EXPENSES

(a) MAINTENANCE PAYROLL

For Maintenance Payroll Expenses, please refer to the Payroll report.

(b) MAINTENANCE TRANSPORTATION

For an estimate of Maintenance Transportation expense, please refer to Section (f) of this Chapter.

(c) STORES

CWS estimates no Stores expenses for Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(d) CONTRACTED MAINTENANCE

CWS' estimate for Contracted Maintenance expenses is $28,400 in Test Year 2011 based on the last recorded year (2008) adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

D. CONCLUSION

DRA recommends that the Commission adopt its O&M expense estimates.

TABLE 3-1

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
OPERATION & MAINTENANCE EXPENSES

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Operating Revenues	257.4	257.5		
Uncollectible rate	0.00000%	0.00000%		
Uncollectibles	0.0	0.0	0.0	0.0%
Operation Expenses				
Purchased Water	0.0	0.0	0.0	0.0%
Replenishment Assessment	0.0	0.0	0.0	0.0%
Groundwater Extraction Charges	0.0	0.0	0.0	0.0%
Purchased Power	6.5	6.5	0.0	0.0%
Purchased Chemicals	1.6	1.7	0.1	6.2%
Payroll	24.7	28.7	4.0	16.2%
Postage	1.5	1.7	0.2	13.3%
Transportation	12.0	18.0	6.0	50.0%
Uncollectibles	0.0	0.0	0.0	0.0%
Source of Supply	0.1	0.1	0.0	0.0%
Pumping	43.6	43.6	0.0	0.0%
Water Treatment	30.8	30.8	0.0	0.0%
Transmission & Distribution	1.6	1.6	0.0	0.0%
Customer Accounting	4.4	4.4	0.0	0.0%
Conservation	1.8	4.1	2.3	127.8%
Total Operation Expenses	128.6	141.2	12.6	9.8%
Maintenance Expenses				
Payroll	9.4	10.9	1.5	16.0%
Transportation	2.7	4.1	1.4	51.9%
Stores	0.0	0.0	0.0	0.0%
Contracted Maintenance	13.5	13.5	0.0	0.0%
Total Maintenance Expense	25.6	28.5	2.9	11.3%
Total O & M Expenses (incl uncoll)	154.2	169.7	15.5	10.1%
At proposed rates				
Operating Revenues	655.6	655.6		
Uncollectible rate	0.00000%	0.00000%		
Uncollectibles	0.0	0.0		
Total O & M Expenses (incl uncoll)	154.2	169.7	15.5	10.1%

TABLE 3-1

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
OPERATION & MAINTENANCE EXPENSES

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Operating Revenues	1,242.8	1,242.8		
Uncollectible rate	1.06087%	1.06087%		
Uncollectibles	13.2	13.2	0.0	0.0%
Operation Expenses				
Purchased Water	17.5	22.3	4.8	27.4%
Replenishment Assessment	0.0	0.0	0.0	0.0%
Groundwater Extraction Charges	0.0	0.0	0.0	0.0%
Purchased Power	38.8	49.6	10.8	27.8%
Purchased Chemicals	41.2	45.5	4.3	10.4%
Payroll	252.3	285.9	33.6	13.3%
Postage	6.7	7.2	0.5	7.5%
Transportation	20.5	23.0	2.5	12.2%
Uncollectibles	13.2	13.2	0.0	0.0%
Source of Supply	6.5	6.5	0.0	0.0%
Pumping	0.8	0.8	0.0	0.0%
Water Treatment	33.5	33.5	0.0	0.0%
Transmission & Distribution	10.2	10.2	0.0	0.0%
Customer Accounting	39.3	39.3	0.0	0.0%
Conservation	9.1	21.0	11.9	130.8%
Total Operation Expenses	489.6	558.0	68.4	14.0%
Maintenance Expenses				
Payroll	5.8	6.5	0.7	12.1%
Transportation	6.3	7.1	0.8	12.7%
Stores	0.2	0.2	0.0	0.0%
Contracted Maintenance	53.9	53.9	0.0	0.0%
Total Maintenance Expense	66.2	67.7	1.5	2.3%
Total O & M Expenses (incl uncoll)	555.8	625.7	69.9	12.6%
At proposed rates				
Operating Revenues	1,925.2	1,925.4		
Uncollectible rate	1.06087%	1.06087%		
Uncollectibles	20.4	20.4		
Total O & M Expenses (incl uncoll)	563.0	632.9	69.9	12.4%

TABLE 3-1

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
OPERATION & MAINTENANCE EXPENSES

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Operating Revenues	485.9	495.9		
Uncollectible rate	0.44492%	0.44492%		
Uncollectibles	2.2	2.2	0.0	2.1%
Operation Expenses				
Purchased Water	15.5	15.5	0.0	0.0%
Replenishment Assessment	0.0	0.0	0.0	0.0%
Groundwater Extraction Charges	0.0	0.0	0.0	0.0%
Purchased Power	13.6	13.6	0.0	0.0%
Purchased Chemicals	1.9	1.9	0.0	0.0%
Payroll	86.2	98.2	12.0	13.9%
Postage	3.2	3.5	0.3	9.4%
Transportation	7.5	9.3	1.8	24.0%
Uncollectibles	2.2	2.2	0.0	2.1%
Source of Supply	2.1	2.1	0.0	0.0%
Pumping	2.6	2.6	0.0	0.0%
Water Treatment	14.8	14.8	0.0	0.0%
Transmission & Distribution	7.0	7.0	0.0	0.0%
Customer Accounting	17.7	17.7	0.0	0.0%
Conservation	3.1	7.1	4.0	129.0%
Total Operation Expenses	177.4	195.4	18.0	10.2%
Maintenance Expenses				
Payroll	5.3	6.0	0.7	13.2%
Transportation	8.8	11.0	2.2	25.0%
Stores	0.0	0.0	0.0	0.0%
Contracted Maintenance	28.4	28.4	0.0	0.0%
Total Maintenance Expense	42.5	45.4	2.9	6.8%
Total O & M Expenses (incl uncoll)	219.9	240.8	20.9	9.5%
At proposed rates				
Operating Revenues	910.5	924.3		
Uncollectible rate	0.44492%	0.44492%		
Uncollectibles	4.1	4.1		
Total O & M Expenses (incl uncoll)	221.8	242.7	21.0	9.5%

CHAPTER 4: ADMINISTRATIVE & GENERAL EXPENSES

A. INTRODUCTION

This Chapter presents DRA's recommended expense levels for California Water Service Company's ("CWS") 2011 Test Year Administrative and General ("A&G") expenses for the Redwood Valley District which has three rate areas, Coast Springs, Lucerne, and Unified.

The categories of A&G expenses cover general expenses including Payroll, Transportation Expenses, Rent, Administration Charges Transfer, Workers' Compensation, Nonspecific Expenses, Amortization of Limited Term Investments and Dues and Donations Adjustment. Table 4-1 presents a comparison of total expense estimates for Test Year 2011. At the end of this Chapter is a Table 4-1 for each rate area.

DRA conducted an independent analysis of CWS' workpapers and methods of estimating the A&G expenses. DRA analyzed CWS' application and exhibits, supporting workpapers, CWS' data request responses, information provided in meetings, field trips to CWS site locations, telephone conversations and e-mails. In general, DRA uses a five-year (2004-2008) average to derive its A&G expense estimates where it had differences with CWS. DRA also removes unusual expenses recorded in certain years to arrive at a different total than CWS, in particular for Nonspecific Expenses. DRA applies its escalation factors to all A&G accounts.

B. SUMMARY OF RECOMMENDATIONS

For the Coast Springs Rate Area DRA's estimated total for A&G expenses is $63,100 for Test Year 2011. CWS' estimate for the same period is $68,900 or 9.2% more than DRA. DRA's estimated total for A&G expenses is $63,500 for

2012. CWS' estimate for the same time period is $70,100 or 10.4% more than DRA.

For the Lucerne Rate Area DRA's estimated total for A&G expenses is $233,000 for Test Year 2011. CWS' estimate for the same period is $252,800 or 8.5% more than DRA. DRA's estimated total for A&G expenses is $234,700 for 2012. CWS' estimate for the same period is $23,700 or 10.1% more than DRA.

For the Unified Rate Area DRA's estimated total for A&G expenses is $106,400 for Test Year 2011. CWS' estimate for the same period is $111,800 or 5.1% more than DRA. DRA's estimated total for A&G expenses is $107,800 for 2012. CWS' estimate for the same period is $114,600 or 6.3% more than DRA.

The difference between the forecasted expense levels of DRA and CWS is the result of: 1) DRA's 2011 Test Year estimates of the various A&G activity expenses; 2) account by account adjustments; 3) different methodologies; and 4) the use of the May 2009 Energy Cost of Service Branch escalation factors memo to derive the estimates as discussed below.

C. DISCUSSION

1) <u>COAST SPRINGS RATE AREA</u>

(a) **Payroll**

For A&G payroll expense, please refer to DRA's Payroll Report.

(b) **Employee Benefits**

There were no methodical differences between DRA and CWS in calculating employee benefits. DRA's estimates for the accounts below are based on (1) total payroll dollars, and (2) total number of employees. CWS' estimates are also a function of these two factors. Per employee unit benefit costs were

developed by Milliman[12] and are based on a variety of actuarial assumptions. The underlying assumptions, except for the escalation factors, were accepted by DRA. Any differences are, therefore, attributable to different escalation factors and differing estimates for total company payroll and total General Office and district employees for 2011 and 2012.

DRA recommends the following amounts (thousands of dollars) for Account 795, Pensions and Benefits:

	DRA		CWS	
	2011	**2012**	**2011**	**2012**
Coast Springs Rate Area	$35.8	$36.0	$39.3	$40.0
Lucerne Rate Area	$183.2	$184.3	$201.4	$204.6
Unified Rate Area	$61.9	$62.3	$68.0	$69.1

All company benefits are accounted for in general operations and allocated to each of the districts using the four-factor method of allocation. In general benefit costs are a function of employee payroll dollars, and/or the number of employees. The following is a breakdown of the sub-accounts included in the total Account 795 Pensions and Benefits:

(i) Account 7951-1 Retirement Savings Plan.

CWS provides employees with a 401(k) program and matches 50% of employee contributions up to 8% of payroll or the statutory contribution limit, whichever is less. Therefore, CWS' maximum contribution is 4% of company payroll. However, not all employees participate in the program. Based on actual participation levels, CWS' matching contribution during the last five years, was

[12] Milliman is CWS' Pensions and Benefits actuarial consultants.

approximately 3%. This rate was used by CWS to forecast the test year amount, and is in line (or comparable) to those offered by other California utilities.[13]

DRA estimated the test year contribution based on the five-year average contribution percentage of 3%, which was multiplied by DRA's estimate of total company payroll (in 2011 and 2012).

(ii) Account 7951-2 Retirement Fund.

CWS' pension funding estimate is based on an actuarial forecast from Milliman. The Milliman analysis also reflects a unit cost per employee which DRA and CWS applied to the estimated number of employees to arrive at the test year's estimate. DRA and CWS' estimates differ because of different escalation factors and different estimates for total employees in the General Office and all districts.

The Milliman forecast is based on certain assumptions such as population growth, payroll changes, and salary adjustments. The Milliman forecast also assumes a long term rate on plan assets of 6.75%, and a discount rate of 5.75% for the years 2011 through 2013. CWS follows FASB[14] Statement of Financial Accounting Standards (SFAS) No. 87, as modified by SFAS 132 and SFAS 158.[15] CWS has followed SFAS 87 since it became effective in 1987. Prior to 1987, CWS pension costs equaled the cash contributions to the pension plan determined in accordance with ERISA.[16] The test year projections are based on Milliman's actuarial valuation as of January 1, 2009 for determining the Net Periodic Benefit

[13] The 3% rate is in line with the 401(k) plans offered by San Jose Water, PG&E, Southern California Edison, and Sempra Energy. See the Milliman analysis, CWS General Report, Tab 12.
[14] Financial Accounting Standards Board.
[15] CWS' response to DRA Data Request JRC-2, Q.7.
[16] Employment Retirement Income Security Act, or Federal law.

Cost under SFAS 87. The underlying pension costs assumptions were accepted by DRA.

DRA was persuaded that CWS had taken appropriate steps to mitigate the ratepayer impact of Plan costs. Further, CWS undertook the following measures to avail itself of the benefits provided under (a) The Pension Protection Act of 2006, (PPA) and (b) The Worker, Retiree and Employer Recovery Act (WRERA) of 2008:[17]

(1) CWS fully complied with PPA and WRERA. CWS modified the actuarial cost method for purposes of determining the minimum funding requirement to the Unit Credit method. CWS also adopted the use of the "3-segment" interest rates (for the 2008 minimum funding requirement) and the "full yield curve" (for the 2009 minimum funding requirement). The actuarial valuations for 2008 and 2009 have shown that the contributions by CWS will satisfy the minimum funding requirements as modified by PPA and WRERA.

(2) In December 2008, CWS made an election to voluntarily reduce its carryover balance (i.e., pre-PPA credit balance) of $1,537,616 as of January 1, 2008 to $0, so that such amount could be included in its plan assets. This was done in order to improve the plan's funded percentages under PPA. In 2009, CWS elected to use the "full yield curve" to determine the funding target under PPA. This increased the plan's funded percentage for 2009.

[17] CWS' response to DRA Data Request JRC-2, Q.1.

(iii) Account 7952- Group Health Insurance.

CWS administers its own (self-insured) employee health care plan. The cost of health insurance is based on actual claims experience and not outside premium payments. The plans include Medical, Dental and Vision care. Further, the plans are on the PPO model where employees are encouraged to use network health care providers in order to minimize costs. CWS' estimate is based on an actuarial forecast from Milliman and includes employee contributions of $125 per month. The Milliman forecast assumes that overall medical cost inflation will continue to be 10% annually for the forecast period.[18] The Milliman analysis also reflects a unit cost per employee which DRA and CWS applied to the estimated number of employees. DRA and CWS' estimate differs because of different escalation factors and different estimates for total employees in the General Office and all districts. The underlying forecast assumptions were accepted by DRA.

(iv) Account 7952-1 Retiree Group Health Insurance.

CWS administers its own (self-insured) retiree health care plan. Therefore, costs for these plans are based on claims experience, not outside premium payments. The plans are on the PPO model, where employees are encouraged to use network providers in order to minimize costs. Further, retirees pay a monthly premium of $300 per person (a retiree and spouse pay $600 per month). This rate decreases to $144 per person when there is other coverage such as Medicare.

The retiree plan is funded in advance in accordance with SFAS 106, which requires that annual funding of the plan be based on an actuarial analysis of the expected future expense arising during the employee service time. CWS' estimate is based on an actuarial forecast from Milliman. The Milliman forecast assumes

[18] Dental and Vision care inflation is forecasted at 5% each for 2011 through 2013.

that overall medical cost inflation will continue to be 10% annually for the forecast period. The Milliman analysis also reflects a unit cost per employee which DRA and CWS applied to the estimated number of employees. DRA and CWS' estimate differs because of different escalation factors and estimates for total employees in the General Office and all districts. The underlying forecast assumptions, except for the escalation factors, were accepted by DRA.

(c) **Transportation Expense**

DRA addresses Transportation Expense in Chapter 3 Operations and Maintenance Expenses of this Report. DRA's estimate for transportation expenses is $100 for Test Year 2011; CWS' estimate for the same time period is $200 dollars or 100% more than DRA. DRA's estimate for 2012 is $100; CWS' estimate for the same period is $200 or 100% more than DRA.

(d) **Rent**

CWS' estimates rental expenses of $1,100 for Test Year 2011 and $1,100 for 2012.[19] DRA has verified the information regarding the Company's rental expense, and recommends adopting this estimate.

(e) **Administration Charges Transfer**

Administration Charges Transfer represents credits for unregulated activity. There are no administration charges transfer expenses in this rate area.

(f) **Workers Compensation**

CWS' estimates of $2,500 in Test Year 2011 and $2,700 in 2012 for Workers Compensation are based on actuarial expectations conducted by actuaries

[19] Refer to Report on the Results of Operation and Prepared Testimony for the Redwood Valley/Coast Springs District, Chapter 6.

at Milliman USA ("Milliman"). An assumption embedded in the estimate is a provision to account for Workers' Compensation to include expected future payments from current employment.[20] In other words, instead of basing the costs on the well-established "pay-as-you-go methodology" that the Commission has consistently utilized, CWS proposes changing to an accrual basis and including the amortization of past liabilities for which payments have not yet been made.

In the prior rate case, CWS requested for the same methodology change. DRA disagreed and calculated a percentage reduction at the General Office level based on the 2002-2006 average for the prior Test Year 2008-2009. The Commission similarly applied DRA's recommended reduction to all the districts in that case. In Decision 08-07-008 (pages 25-26, Section 4.7 on Workers' Compensation), the Commission upheld the use of the "pay-as-you-go methodology" for accounting for Workers' Compensation insurance costs.

For the current rate case, DRA continues to disagree with CWS' proposed change in recovery methodology and recommends continuing the "pay-as-you-go methodology" for recovering this cost. To put in perspective CWS' current proposal for Test Year 2011, on a company-wide basis, i.e., 24 districts plus General Office, CWS' total proposed Workers' Compensation is $2,747,250. This amount is almost triple the total 2008 recorded amount of $992,800 and about 70% higher than the 2004-2008 five-year average (in 2009 dollars) of $1,643,900.

DRA reviewed the recorded amounts for Workers' Compensation for this District. DRA finds the recorded amounts for 2004 to 2008 are more reflective of the "pay-as-you-go methodology" for accounting for Workers Compensation that the Commission approved in D. 08-07-008. DRA then took a five-year average of these recorded amounts and escalated the five-year average using DRA's labor

[20] Refer to General Report on the Results of Operations and Prepared Testimony, pg. 62.

escalation factors to derive its Test Year 2011 and 2012 forecast of $1,000 and $1,000 respectively for the Redwood Valley District, Coast Springs Rate Area.

DRA recommends adapting its estimate for Workers Compensation for the Test Year's for this District.

(g) **Nonspecific Expenses**

Nonspecific Expenses generally represent miscellaneous administrative and general expenditures. The Nonspecific Expenses account contains various sub-accounts. However, CWS does not provide estimated amounts for each sub-account for future years. Instead, it provides a compound figure for Nonspecific Expenses that are based on historical spending levels in all sub-accounts. CWS' Nonspecific Expenses estimates for Test Year 2011 and 2012 of $5,700 and $5,800 respectively are based on a five-year average. DRA reviewed all sub accounts within Nonspecific expenses and made no adjustments. DRA then escalated its five-year average using DRA's composite escalation factors to derive its 2011 forecast. DRA's estimates of $5,700 and $5,800 for Nonspecific Expenses for Test Year 2011 and 2012 respectively are the same as CWS'.

(h) **Amortization of Limited Term Investment**

This expense pertains to the amortization of intangible assets, such as capital planning studies. CWS' estimates $14,600 for Amortization of Limited Term Investment. CWS bases its estimate from the general method for this expense shown on CWS' amortization schedule. DRA reviewed this account and recommends adopting CWS' Amortization of Limited Term Investment estimate.

(i) **Dues and Donations Adjustment**

The Dues and Donations Adjustment represents CWS' adjustment of non-professional dues paid historically, for ratemaking purposes. There are no dues and donations for this rate area.

2) LUCERNE RATE AREA

(a) **Payroll**

For A&G payroll expense, please refer to DRA's Payroll Report.

(b) **Employee Benefits**

For A&G employee benefits expense see above under the Coast Springs rate area discussion section.

(c) **Transportation Expense**

DRA addresses Transportation Expense in Chapter 3, Operations and Maintenance Expenses, of this Report. DRA's estimate for transportation expenses is $ 600 for Test Year 2011; CWS' estimate for the same time period is $700 dollars or 16.7% more than DRA. DRA's estimate for 2012 is $600; CWS' estimate for the same period is $700 or 16.7% more than DRA.

(d) **Ren**t

CWS' estimates rental expenses of $1,500 for Test Year 2011 and $1,500 for 2012.[21] DRA has verified the information regarding the Company's rental expense, and recommends adopting this estimate.

[21] Refer to Report on the Results of Operation and Prepared Testimony for the Redwood Valley/Lucerne District, Chapter 6.

(e) **Workers Compensation**

CWS' estimate of $12,600 in Test Year 2011 and $13,900 in 2012 for Workers Compensation is based on actuarial expectations conducted by actuaries at Milliman USA ("Milliman"). An assumption embedded in the estimate is a provision to account for Workers' Compensation to include expected future payments from current employment.[22] In other words, instead of basing the costs on the well-established "pay-as-you-go methodology" that the Commission has consistently utilized, CWS proposes changing to an accrual basis and including the amortization of past liabilities for which payments have not yet been made.

In the prior rate case, CWS requested the same methodology change. DRA disagreed and calculated a percentage reduction at the General Office level based on the 2002-2006 average for the prior Test Year 2008-2009. The Commission similarly applied DRA's recommended reduction to all the districts in that case. In Decision 08-07-008 (pages 25-26, Section 4.7 on Workers' Compensation), the Commission upheld the use of the "pay-as-you-go methodology" for accounting for Workers' Compensation insurance costs.

For the current rate case, DRA continues to disagree with CWS' proposed change in recovery methodology and recommends continuing the "pay-as-you-go methodology" for recovering this cost. To put in perspective CWS' current proposal for Test Year 2011, on a company-wide basis, i.e., 24 districts plus General Office, CWS' total proposed Workers' Compensation is $2,747,250. This amount is almost triple the total 2008 recorded amount of $992,800 and about 70% higher than the 2004-2008 five-year average (in 2009 dollars) of $1,643,900.

[22] Refer to General Report on the Results of Operations and Prepared Testimony, pg. 62.

DRA reviewed the recorded amounts for Workers' Compensation for this District. DRA finds the recorded amounts for 2004 to 2008 more reflective of the "pay-as-you-go methodology" for accounting for Workers Compensation that the Commission approved in D. 08-07-008. DRA then took a five-year average of these recorded amounts and escalated the five-year average using DRA's labor escalation factors to derive its Test Year 2011 and 2012 forecast of $13,700 and $13,700, respectively for the Redwood Valley District, Lucerne Rate Area.

DRA recommends adopting its estimate for Workers Compensation for the Test Year 2011 for this rate area.

(f) **Nonspecific Expenses**

Nonspecific Expenses generally represent miscellaneous administrative and general expenditures. The Nonspecific Expenses account contains various sub-accounts. However, CWS does not provide estimated amounts for each sub-account for future years. Instead, it provides a compound figure for Nonspecific Expenses that are based on historical spending levels in all sub-accounts. CWS Nonspecific Expenses estimates for Test Year 2011 and 2012 of $7,400, and $7,600 respectively are based on a five-year average. DRA reviewed all sub accounts within Nonspecific Expenses and adjusted some amounts for the years 2004 through 2008 under the following subaccounts: Account 792602 – Meal at CWS by $127, and Account 799500 – Miscellaneous General Expense by $207. DRA then escalated its five-year average using DRA's composite escalation factors to derive its Test Year 2011 forecast. DRA estimates of $7,300 and $7,500 for Nonspecific Expenses for Test Year 2011 and 2012 forecasts respectively are lower than CWS' Nonspecific estimates. CWS' Nonspecific forecasts of $7,400 and $7,600 exceeds DRA's estimate by $100 and $100, or 1.4%, and 1.3% respectively for Test Year 2011 and 2012. DRA's reasons for these adjustments are described below:

(i) Account 792602 – Meals at CWS

DRA discovered expenditures in 2004 for an Employee Celebration Day. DRA believes that the previously mentioned expenditures were of no benefit to ratepayers, and removes them from DRA's estimate.

(ii) Account 799500 - Miscellaneous General Expenses

DRA discovered expenditures in this account from 2004 for Floral Service, Flowers, and Plant Memory for an employee. DRA believes that the previously mentioned expenditures were of no benefit to ratepayers, and removes them from DRA's estimate.

(g) **Amortization of Limited Term Investment**

This expense pertains to the amortization of intangible assets, such as capital planning studies. CWS estimates $8,000 for Amortization of Limited Term Investment. CWS bases its estimate from the general method for this expense shown on CWS' amortization schedule. DRA reviewed this account and recommends adopting of CWS' Amortization of Limited Term Investment estimate for Test Year 2011 and 2012.

3) <u>UNIFIED RATE AREA</u>

(a) **Payroll**

For A&G payroll expense, please refer to DRA's Payroll Report.

(b) **Employee Benefits**

For A&G employee benefits expense see above under the Coast Springs rate area discussion section.

(c) **Transportation Expense**

DRA addresses Transportation Expense in Chapter 3, Operations and Maintenance Expenses, of this Report. DRA's estimate for transportation expenses is $200 for Test Year 2011; CWS' estimate for the same time period is $300 dollars or 50.0% more than DRA's. DRA's estimate for 2012 is $600; CWS' estimate for the same period is $700 or 16.7% more than DRA's.

(d) **Rent**

CWS' estimates rental expenses of $10,900 for Test Year 2011 and $11,200 for 2012.[23] DRA has verified the information regarding the Company's rental expense, and recommends adopting this estimate for CWS' Rent expense.

(e) **Administration Charges Transfer**

Administration Charges Transfer represents credits for unregulated activity. There are no Administration Charges for this rate area.

(f) **Workers Compensation**

CWS' estimate of $4,200 in Test Year 2011 and $4,700 in 2012 for Workers Compensation is based on actuarial expectations conducted by actuaries at Milliman USA ("Milliman"). An assumption embedded in the estimate is a provision to account for Workers' Compensation to include expected future payments from current employment.[24] In other words, instead of basing the costs on the well-established "pay-as-you-go methodology" that the Commission has

[23] Refer to Report on the Results of Operation and Prepared Testimony for the Redwood Valley/Unified District, Chapter 6.

[24] Refer to General Report on the Results of Operations and Prepared Testimony, pg. 62.

consistently utilized, CWS proposes changing to an accrual basis and including the amortization of past liabilities for which payments have not yet been made.

In the prior rate case, CWS requested the same methodology change. DRA disagreed and calculated a percentage reduction at the General Office level based on the 2002-2006 average for the prior Test Year 2008-2009. The Commission similarly applied DRA's recommended reduction to all the districts in that case. In Decision 08-07-008 (pages 25-26, Section 4.7 on Workers' Compensation), the Commission upheld the use of the "pay-as-you-go methodology" for accounting for Workers' Compensation insurance costs.

For the current rate case, DRA continues to disagree with CWS' proposed change in recovery methodology and recommends continuing the "pay-as-you-go methodology" for recovering this cost. To put in perspective CWS' current proposal for Test Year 2011, on a company-wide basis, i.e., 24 districts plus General Office, CWS' total proposed Workers' Compensation is $2,747,250. This amount is almost triple the total 2008 recorded amount of $992,800 and about 70% higher than the 2004-2008 five-year average (in 2009 dollars) of $1,643,900.

DRA reviewed the recorded amounts for Workers' Compensation for this District. DRA finds the recorded amounts for 2004 to 2008 are more reflective of the "pay-as-you-go methodology" for accounting for Workers Compensation that the Commission approved in D. 08-07-008. DRA then took a five-year average of these recorded amounts and escalated the five-year average using DRA's labor escalation factors to derive its Test Year 2011 and 2012 forecast of $6,200 and $6,200, respectively for the Redwood Valley District, Unified Rate Area.

DRA recommends adapting its estimate for Workers Compensation for the Test Year's for this rate area.

(g) **Nonspecific Expenses**

Nonspecific Expenses generally represent miscellaneous administrative and general expenditures. The Nonspecific Expenses account contains various sub-accounts. However, CWS does not provide estimated amounts for each sub-account for future years. Instead, it provides a compound figure for Nonspecific Expenses that are based on historical spending levels in all sub-accounts. CWS' Nonspecific Expenses estimates for Test Year 2011 and 2012 are $15,800 and $16,200, respectively are based on a five-year average. DRA reviewed all sub accounts within Nonspecific Expenses and adjusted some amounts for the years 2004 through 2008 under the following subaccount: Account 799500 – Miscellaneous General Expense by $155. DRA then escalated its five-year average using DRA's composite escalation factors to derive its Test Year 2011 forecast. DRA's estimates of $15,700 and $16,100 for Nonspecific Expenses for Test Year 2011 and 2012 respectively are lower than CWS' Nonspecific Expenses estimates. CWS' Nonspecific forecasts of $15,800 and $16,200 exceed DRA's estimates by $100 and $100, or 0.6%, and 0.6% respectively, for test Year 2011 and 2012. DRA's reasons for these adjustments are described below:

(i) Account 799500 - Miscellaneous General Expenses

DRA identified expenditures in this account from 2004 for Celeb Day Expenses. DRA believes that the previously mentioned expenditures were of no benefit to ratepayers, and removes them from DRA's estimate.

(h) **Amortization of Limited Term Investment**

This expense pertains to the amortization of intangible assets, such as capital planning studies. CWS estimates $3,000 for Amortization of Limited Term Investment. CWS bases its estimate from the general method for this expense shown on CWS' amortization schedule. DRA reviewed this account and

recommends adopting CWS' Amortization of Limited Term Investment estimate for Test Year 2011 and 2012.

(i) **Dues and Donations Adjustment**

The Dues and Donations Adjustment represents CWS' adjustment of non-professional dues paid historically, for ratemaking purposes. There is no Dues and Donations Adjustment for this rate area.

D. CONCLUSION

DRA recommends that the Commission adopt DRA's A&G Expenses for the three rate areas in the Redwood Valley District.

TABLE 4-1

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
ADMINISTRATIVE & GENERAL EXPENSES

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Oper. Rev. less uncoll.	257.4	257.5		
Local Franchise Rate	0.0000%	0.0000%		
Franchise tax	0.0	0.0	0.0	0.0%
Payroll	4.8	5.5	0.7	14.6%
Benefits	35.8	39.3	3.5	9.8%
Transportation Expenses	0.1	0.2	0.1	100.0%
Rent	1.1	1.1	0.0	0.0%
Admin Charges Trsf	0.0	0.0	0.0	0.0%
Workmen's Compensation	1.0	2.5	1.5	150.0%
Nonspecifics	5.7	5.7	0.0	0.0%
Amort of Limited Term Inv.	14.6	14.6	0.0	0.0%
Dues & Donations Adjustment	0.0	0.0	0.0	0.0%
Total A & G Expenses	63.1	68.9	5.8	9.2%
(incl. local Fran.)	63.1	68.9	5.8	9.2%
At proposed rates				
Oper. Rev. less uncoll.	655.6	655.6		
Local Franchise Rate	0.0000%	0.0000%		
Fran. tax	0.0	0.0	0.0	0.0%
Total A & G Expenses	63.1	68.9	5.8	9.2%
(incl. local Fran.)	63.1	68.9	5.8	9.2%

TABLE 4-1

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
ADMINISTRATIVE & GENERAL EXPENSES

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Oper. Rev. less uncoll.	1,229.6	1,242.8		
Local Franchise Rate	0.0000%	0.0000%		
Franchise tax	0.0	0.0	0.0	0.0%
Payroll	18.7	21.2	2.5	13.4%
Benefits	183.2	201.4	18.2	9.9%
Transportation Expenses	0.6	0.7	0.1	16.7%
Rent	1.5	1.5	0.0	0.0%
Admin Charges Trsf	0.0	0.0	0.0	0.0%
Worker's Compensation	13.7	12.6	-1.1	-8.0%
Nonspecifics	7.3	7.4	0.1	1.4%
Amort of Limited Term Inv.	8.0	8.0	0.0	0.0%
Dues & Donations Adjustment	0.0	0.0	0.0	0.0%
Total A & G Expenses	233.0	252.8	19.8	8.5%
(incl. local Fran.)	233.0	252.8	19.8	8.5%
At proposed rates				
Oper. Rev. less uncoll.	1,904.8	1,925.4		
Local Franchise Rate	0.0000%	0.0000%		
Fran. tax	0.0	0.0	0.0	0.0%
Total A & G Expenses	233.0	252.8	19.8	8.5%
(incl. local Fran.)	233.0	252.8	19.8	8.5%

TABLE 4-1

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
ADMINISTRATIVE & GENERAL EXPENSES

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Oper. Rev. less uncoll.	483.7	495.9		
Local Franchise Rate	0.0000%	0.0000%		
Franchise tax	0.0	0.0	0.0	0.0%
Payroll	8.5	9.6	1.1	12.9%
Benefits	61.9	68.0	6.1	9.9%
Transportation Expenses	0.2	0.3	0.1	50.0%
Rent	10.9	10.9	0.0	0.0%
Admin Charges Trsf	0.0	0.0	0.0	0.0%
Worker's Compensation	6.2	4.2	-2.0	-32.3%
Nonspecifics	15.7	15.8	0.1	0.6%
Amort of Limited Term Inv.	3.0	3.0	0.0	0.0%
Dues & Donations Adjustment	0.0	0.0	0.0	0.0%
Total A & G Expenses	106.4	111.8	5.4	5.1%
(incl. local Fran.)	106.4	111.8	5.4	5.1%
At proposed rates				
Oper. Rev. less uncoll.	906.4	924.3		
Local Franchise Rate	0.0000%	0.0000%		
Fran. tax	0.0	0.0	0.0	0.0%
Total A & G Expenses	106.4	111.8	5.4	5.1%
(incl. local Fran.)	106.4	111.8	5.4	5.1%

CHAPTER 5: TAXES OTHER THAN INCOME

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on Taxes Other Than Income for the Redwood Valley District of California Water Service's (CWS) Test Year 2011 General Rate Case. The category of Taxes Other Than Income is comprised of ad valorem (property taxes), business license fees, local franchise fees, and payroll taxes.

B. SUMMARY OF RECOMMENDATIONS

Differences between CWS' and DRA's estimates for Taxes Other Than Income are primarily due to differences in revenue, plant and payroll estimates. The methodologies used by CWS in estimating future taxes and fees are detailed below. Anywhere DRA has made adjustments to improve the consistency or accuracy of estimates has also been noted below.

C. DISCUSSION

1) AD VALOREM TAXES

CWS estimates future ad valorem taxes using the actual ad valorem tax percentage from the last recorded year. This percentage is applied to the following year's estimated net total of utility property accounts.[25] The pro-forma ad valorem estimate is the arithmetic average of the two years. DRA accepts this methodology and notes that differences between CWS and DRA estimates are due to differences in estimations of future plant.

[25] Net Total of Property = plant + materials & supplies + construction work in progress + present value of advances – advances & contributions – deferred income tax

2) BUSINESS LICENSE and LOCAL FRANCHISE FEES

The Redwood Valley District does not pays a business license fee or a franchise tax.

3) PAYROLL TAXES

CWS estimates future payroll taxes using projected payroll amounts and the effective tax rates from the last recorded year. The three components of payroll taxes are Federal Insurance Contributions (FICA), Federal Unemployment Insurance (FUI) and State Unemployment Insurance (SUI). All three components have statutory limits governing the maximum percentage that can be collected from employers (*see table, below*).

PAYROLL TAXES		2009 MAXIMUM	EXPLANATORY NOTES
FICA	Social Security Tax	6.2%	Social Security Tax is 6.2% applied to only the first $106,800 of an employee's salary.
	Medicare Tax	1.45%	
FUI Tax		0.8%	Federal Unemployment Tax is 6.2% reduced by an offset credit of up to 5.4% for a total of 0.8% on the first $7,000 of employee wages ($56 per employee).
SUI Tax (CA)		6.3%	State Unemployment Taxes vary by company from 1.5% to 6.2% plus an Employment Training Tax Rate of 0.1% for a maximum tax percentage of 6.3%.

In general, DRA accepts the methodology utilized by CWS to estimate future payroll taxes. An adjustment was made by DRA to the imputed FICA percentage used by CWS for Redwood Valley District rate area Coast Springs (10.64%) to coincide with the maximum tax (7.65%) that can be collected for the combined Social Security and Medicare Taxes (see table above). All other differences between DRA and CWS estimates result from differences in the estimates of future payroll.

D. CONCLUSION

DRA recommends Commission adoption of DRA's estimates of Taxes Other Than Income that are presented in Tables 5-1.

TABLE 5-1

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
TAX DEDUCTIONS AND CREDITS

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Ad Valorem taxes	3.4	10.1	6.7	197.1%
Local Franchise (pres rates)	0.0	0.0	0.0	0.0%
Local Franchise (CWS prop rates)	0.0	0.0	0.0	0.0%
Social Security Taxes	3.1	4.9	1.8	58.1%
Business License (pres rates)	0.0	0.0	0.0	0.0%
Business License (CWS prop rates)	0.0	0.0	0.0	0.0%
Taxes other than income (present rates)	6.5	15.0	8.5	130.8%
Taxes other than income (CWS proposed rates)	6.5	15.0	8.5	130.8%
State Tax Depreciation	43.4	100.1	56.7	130.7%
Transp. Dep. Adj.	(0.7)	(0.9)	(0.2)	28.6%
State Tax Deduct(pres rates)	42.7	99.2	56.5	132.4%
State Tax Deduct (CWS prop rates)	42.7	99.2	56.5	132.4%
Fed. Tax Depreciation (pres rates)	45.5	104.9	59.4	130.7%
State Income Tax (pres. rates)	(6.9)	(19.8)	(13.0)	188.6%
State Income Tax (CWS prop rates)	28.3	15.4	(12.9)	-45.7%
Pre. Stock Div. Credit	0.0	0.0	0.0	0.0%
DPAD (pres. Rates)	0.0	18.9	18.9	0.0%
DPAD (CWS prop. Rates)	(26.1)	(14.5)	11.6	-44.5%
Fed. Tax Deduct.(pres rates)	38.6	104.0	65.4	169.4%
Fed. Tax Deduct (CWS prop rates)	47.7	105.8	58.1	121.8%

TABLE 5-1

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
TAX DEDUCTIONS AND CREDITS

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Ad Valorem taxes	38.7	50.9	12.2	31.5%
Local Franchise (pres rates)	0.0	0.0	0.0	0.0%
Local Franchise (CWS prop rates)	0.0	0.0	0.0	0.0%
Social Security Taxes	17.1	19.3	2.2	12.9%
Business License (pres rates)	0.0	0.0	0.0	0.0%
Business License (CWS prop rates)	0.0	0.0	0.0	0.0%
Taxes other than income (present rates)	55.8	70.2	14.4	25.8%
Taxes other than income (CWS proposed rates)	55.8	70.2	14.4	25.8%
State Tax Depreciation	197.1	241.3	44.2	22.4%
Transp. Dep. Adj.	(7.7)	(9.0)	(1.3)	16.9%
State Tax Deduct(pres rates)	189.4	232.3	42.9	22.7%
State Tax Deduct (CWS prop rates)	189.4	232.3	42.9	22.7%
Fed. Tax Depreciation (pres rates)	259.4	317.6	58.2	22.4%
State Income Tax (pres. rates)	(8.6)	(30.9)	(22.3)	260.5%
State Income Tax (CWS prop rates)	51.1	28.8	(22.3)	-43.7%
Pre. Stock Div. Credit	0.0	0.0	0.0	0.0%
DPAD (pres. Rates)	0.0	36.5	36.5	0.0%
DPAD (CWS prop. Rates)	0.0	(19.7)	(19.7)	0.0%
Fed. Tax Deduct.(pres rates)	250.8	323.2	72.3	28.8%
Fed. Tax Deduct (CWS prop rates)	310.5	326.7	16.2	5.2%

TABLE 5-1

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
TAX DEDUCTIONS AND CREDITS

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Ad Valorem taxes	6.2	10.6	4.4	71.0%
Local Franchise (pres rates)	0.0	0.0	0.0	0.0%
Local Franchise (CWS prop rates)	0.0	0.0	0.0	0.0%
Social Security Taxes	7.3	8.4	1.1	15.1%
Business License (pres rates)	0.0	0.0	0.0	0.0%
Business License (CWS prop rates)	0.0	0.0	0.0	0.0%
Taxes other than income (present rates)	13.5	19.0	5.5	40.7%
Taxes other than income (CWS proposed rates)	13.5	19.0	5.5	40.7%
State Tax Depreciation	69.7	131.4	61.7	88.6%
Transp. Dep. Adj.	(2.1)	(2.6)	(0.5)	23.8%
State Tax Deduct(pres rates)	67.6	128.8	61.2	90.7%
State Tax Deduct (CWS prop rates)	67.6	128.8	61.2	90.7%
Fed. Tax Depreciation (pres rates)	46.1	86.9	40.8	88.6%
State Income Tax (pres. rates)	(1.1)	(14.5)	(13.5)	1274.4%
State Income Tax (CWS prop rates)	36.3	22.9	(13.4)	-37.0%
Pre. Stock Div. Credit	0.0	0.0	0.0	0.0%
DPAD (pres. Rates)	(1.1)	6.6	7.7	-708.5%
DPAD (CWS prop. Rates)	(34.0)	(18.0)	16.0	-47.1%
Fed. Tax Deduct.(pres rates)	43.9	79.0	35.0	79.8%
Fed. Tax Deduct (CWS prop rates)	48.3	91.8	43.4	89.8%

CHAPTER 6: INCOME TAXES

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on Income Taxes for the Redwood Valley District of California Water Service (CWS) Test Year 2011 General Rate Case. In developing its recommendations, DRA reviewed the reports, workpapers, and data responses of CWS in conjunction with information obtained from the California Franchise Tax Board and the Internal Revenue Service.

B. SUMMARY OF RECOMMENDATIONS

The majority of the differences between CWS and DRA estimates of Income Taxes are attributable to differences in estimated revenue, expenses, and rate base. Anywhere DRA has made adjustments to the estimating methodology used by CWS is detailed below. The areas in which DRA made adjustments to CWS calculations for Redwood Valley District pertains to the: (1) federal deduction of the California Corporate Franchise Tax, (2) California Corporate Franchise Tax total percentage, (3) calculation of the interest expense deduction, and (4) domestic production activities deduction.

C. DISCUSSION

1) DRA ADJUSTMENTS

(a) Federal Deduction of California Corporate Franchise Tax (CCFT)

D.89-11-058, issued in November of 1989, required that the prior year's CCFT be used as the deduction for calculation of test year federal income taxes. As discussed throughout the decision, companies at that time were required to pay estimated California taxes one year in advance.[26] D.89-11-058 corrected the

[26] California Revenue and Taxation Code, Part 11, Chapter 2, Article 2, Section 23151(f)(2)

timing difference between when companies had previously paid California taxes and when they had realized such payment as a deduction for federal income taxes.

Since 1989, the California Tax Code has changed so that corporations are no longer required to make estimated CCFT payments to the state one year in advance. In fact, California tax law now requires corporations to compute an estimated tax "upon the basis of the net income for that taxable year."[27] As such, DRA recommends using the current year's CCFT as a deduction in the current year's calculation of federal income taxes. Differing from D.89-11-058 yet more representative of current California tax practice, DRA's methodology provides a more accurate estimate of a utility's assumed tax consequences and revenue requirements. More importantly, consistent with long-standing regulatory tradition and Generally Accepted Accounting Procedures (GAAP), the DRA methodology more closely adheres to the fundamental "matching principle," where costs incurred in a given period should be matched against the revenue or benefits received in the same period.

(b) California Corporate Franchise Tax Total Percentage

Referencing D.84-05-036 yet failing to cite the specific ordering paragraph, section, or discussion, CWS added six-basis points to the CCFT percentage used to estimate state taxes for test year and escalation years. Through data requests, review of Commission decisions, and personal interviews, DRA attempted to find some justification for CWS' inclusion of an additional 0.06% in state tax estimates. Unable to substantiate the validity of this addition, DRA removed the percentage, which reduced CCFT estimates by 0.06%.

[27] Ibid

(c) Calculation of the Interest Expense Deduction

A formula error in CWS' workpapers for calculating the Interest Expense Deduction resulted in Working Cash being subtracted from Rate Base. DRA has corrected this error in the calculation of the deduction for Redwood Valley. The recommended Interest Expense Deduction now equals Rate Base (including working cash) multiplied by the current CWS weighted-average-cost-of-debt (3.16%).[28]

(d) Domestic Production Activities Deduction (DPAD)

Beginning in taxable year 2010, Section 199 of the IRS Code allows a deduction equal to 9% of a taxpayer's qualified production activities income (QPAI). The calculation of this deduction by CWS for Redwood Valley District rate area's Lucerne and Unified assumes that all income is from qualified production activities. This assumption results in an overestimation of the allowable deduction and an underestimation of the rate area's assumed taxes. DRA has corrected the DPAD calculation for Redwood Valley District rate area's Lucerne and Unified to incorporate only those qualifying activities into the deduction. DRA multiplies the deduction calculated by CWS by the percentage of water produced[29] in the district (a qualifying activity).

2) GENERAL INCOME TAX CALCULATIONS

In calculating income taxes, both DRA and CWS subtract common expenses from estimated revenue. For the calculation of state taxes, CWS has calculated tax depreciation amounts to reflect the required flow-through of deferred tax benefits,

[28] D.09-05-019: Base Year 2009 Cost of Capital for the three large multi-district Class A Water Utilities

[29] "produced water" and "purchased water" are the two categories of "total water" used to calculated DPAD

while federal tax depreciation amounts reflect the requirements of normalization. This methodology is consistent with the requirements of the Economic Recovery Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982, and the Tax Reform Act of 1986.

D. CONCLUSION

DRA recommends Commission adoption of DRA's estimates of Income Taxes that have been calculated and presented in Tables 6-1 and 6-2.

TABLE 6-1

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
TAXES BASED ON INCOME

TEST YEAR 2011

(PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	257.4	257.5	0.1	0.0%
Deductions:				
O & M expenses	154.2	169.7	15.5	10.1%
A & G expenses	63.1	68.9	5.8	9.2%
G. O. Prorated expenses	60.2	81.2	21.0	34.9%
Exclude GO Book Depreciation	(8.0)	(9.3)	(1.3)	16.3%
Taxes not on Income	6.5	15.0	8.5	130.8%
Transportation Deprec Adj	(0.7)	(0.9)	(0.2)	28.6%
Interest	16.5	56.1	39.6	240.5%
Income before taxes	(34.4)	(123.2)	(88.8)	258.4%
Calif. Corp. Franchise Tax				
State Tax Deductions	(43.4)	(100.1)	-56.7	130.7%
Taxable income for CCFT	(77.8)	(223.3)	(145.5)	187.2%
CCFT Rate	8.84%	8.84%		
Additional Tax per D.84-05-036	0.0	(0.1)	(0.1)	0.0%
CCFT	(6.9)	(19.8)	(13.0)	188.6%
Federal Income Tax				
Tax Depreciation	45.5	104.9	59.4	130.7%
State Corp Franch Tax	(6.9)	(17.6)	(10.7)	156.1%
Pref Stock Dividend Credit	0.0	0.0	0.0	0.0%
Taxable income for FIT	(73.0)	(210.5)	(137.5)	188.5%
Domestic Prod. Activities Ded.	0.0	18.9	18.9	0.0%
Adjusted Taxable Income	(73.0)	(191.6)	(118.6)	162.6%
FIT Rate	35.00%	35.00%		
FIT	(25.5)	(67.0)	(41.5)	162.6%
Investment Tax Credit	0.0	0.0	0.0	0.0%
Total FIT	(25.5)	(67.0)	(41.5)	162.6%
Total FIT & CCFT	(32.4)	(86.9)	(54.5)	168.1%

TABLE 6-2

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
TAXES BASED ON INCOME

TEST YEAR 2011

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	655.6	656.0	0.4	0.1%
Deductions:				
O & M expenses	154.2	169.7	15.5	10.1%
A & G expenses	63.1	68.9	5.8	9.2%
G. O. Prorated expenses	60.2	81.2	21.0	34.9%
Exclude GO Book Depreciation	(8.0)	(9.3)	(1.3)	16.3%
Taxes not on Income	6.5	15.0	8.5	130.8%
Transportation Deprec Adj	(0.7)	(0.9)	(0.2)	28.6%
Interest	16.5	56.1	39.6	240.5%
Income before taxes	363.8	275.3	(88.5)	-24.3%
Calif. Corp. Franchise Tax				
State Tax Deductions	(43.4)	(100.1)	-56.7	130.7%
Taxable income for CCFT	320.4	175.2	(145.2)	-45.3%
CCFT Rate	8.84%	8.84%		
Additonal Tax per D.84-05-036	0.0	(0.1)	(0.1)	0.0%
CCFT	28.3	15.4	(12.9)	-45.7%
Federal Income Tax				
Tax Depreciation	45.5	104.9	59.4	130.7%
State Corp Franch Tax	28.3	9.8	-18.5	-65.4%
Pref Stock Dividend Credit	0.0	0.0	0.0	0.0%
Taxable income for FIT	290.0	160.6	(129.4)	-44.6%
Domestic Prod. Activities Ded.	(26.1)	(14.5)	11.6	-44.5%
Adjusted Taxable Income	263.9	146.1	-117.8	-44.6%
FIT Rate	35.00%	35.00%		
FIT	92.4	51.1	(41.2)	-44.6%
Investment Tax Credit	0.0	0.0	0.0	0.0%
Total FIT	92.4	51.1	(41.2)	-44.6%
Total FIT & CCFT	120.7	66.5	(54.2)	-44.9%

TABLE 6-1

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
TAXES BASED ON INCOME

TEST YEAR 2011

(PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	1,242.8	1,242.8	0.0	0.0%
Deductions:				
O & M expenses	555.8	625.7	69.9	12.6%
A & G expenses	233.0	252.8	19.8	8.5%
G. O. Prorated expenses	220.7	297.4	76.7	34.8%
Exclude GO Book Depreciation	(29.4)	(34.2)	(4.8)	16.3%
Taxes not on Income	55.8	70.2	14.4	25.8%
Transportation Deprec Adj	(7.7)	(9.0)	(1.3)	16.9%
Interest	114.5	146.0	31.5	27.5%
Income before taxes	100.1	(106.1)	(206.2)	-205.9%
Calif. Corp. Franchise Tax				
State Tax Deductions	(197.1)	(241.3)	-44.2	22.4%
Taxable income for CCFT	(97.0)	(347.4)	(250.4)	258.2%
CCFT Rate	8.84%	8.84%		
Additional Tax per D.84-05-036	0.0	(0.2)	(0.2)	0.0%
CCFT	(8.6)	(30.9)	(22.3)	260.5%
Federal Income Tax				
Tax Depreciation	259.4	317.6	58.2	22.4%
State Corp Franch Tax	(8.6)	(18.5)	(9.9)	115.8%
Pref Stock Dividend Credit	0.0	0.0	0.0	0.0%
Taxable income for FIT	(150.7)	(405.2)	(254.4)	168.8%
Domestic Prod. Activities Ded.	0.0	36.5	36.5	0.0%
Adjusted Taxable Income	(150.7)	(368.7)	(217.9)	144.6%
FIT Rate	35.00%	35.00%		
FIT	(52.8)	(129.1)	(76.4)	144.8%
Investment Tax Credit	0.0	0.0	0.0	0.0%
Total FIT	(52.8)	(129.1)	(76.4)	144.8%
Total FIT & CCFT	(61.3)	(160.0)	(98.7)	161.0%

TABLE 6-2

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
TAXES BASED ON INCOME

TEST YEAR 2011

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	1,925.2	1,925.4	0.2	0.0%
Deductions:				
O & M expenses	563.0	632.9	69.9	12.4%
A & G expenses	233.0	252.8	19.8	8.5%
G. O. Prorated expenses	220.7	297.4	76.7	34.8%
Exclude GO Book Depreciation	(29.4)	(34.2)	(4.8)	16.3%
Taxes not on Income	55.8	70.2	14.4	25.8%
Transportation Deprec Adj	(7.7)	(9.0)	(1.3)	16.9%
Interest	114.5	146.0	31.5	27.5%
Income before taxes	775.3	569.3	(206.0)	-26.6%
Calif. Corp. Franchise Tax				
State Tax Deductions	(197.1)	(241.3)	-44.2	22.4%
Taxable income for CCFT	578.2	328.0	(250.2)	-43.3%
CCFT Rate	8.84%	8.84%		
Additonal Tax per D.84-05-036	0.0	(0.2)	(0.2)	0.0%
CCFT	51.1	28.8	(22.3)	-43.7%
Federal Income Tax				
Tax Depreciation	259.4	317.6	58.2	22.4%
State Corp Franch Tax	51.1	32.4	-18.7	-36.6%
Pref Stock Dividend Credit	0.0	0.0	0.0	0.0%
Taxable income for FIT	464.7	219.3	(245.5)	-52.8%
Domestic Prod. Activities Ded.	0.0	(19.7)	-19.7	0.0%
Adjusted Taxable Income	464.7	199.6	-265.2	-57.1%
FIT Rate	35.00%	35.00%		
FIT	162.7	69.8	(92.9)	-57.1%
Investment Tax Credit	0.0	0.0	0.0	0.0%
Total FIT	162.7	69.8	(92.9)	-57.1%
Total FIT & CCFT	213.8	98.6	(115.2)	-53.9%

TABLE 6-1

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
TAXES BASED ON INCOME

TEST YEAR 2011

(PRESENT RATES)

Item	DRA	CWS		CWS exceeds DRA Amount	%
	(Thousands of $)				
Operating revenues	485.9	495.9		10.0	2.1%
Deductions:					
O & M expenses	219.9	244.4		24.5	11.2%
A & G expenses	106.4	111.8		5.4	5.1%
G. O. Prorated expenses	75.1	101.5		26.4	35.2%
Exclude GO Book Depreciation	(10.0)	(11.7)		(1.7)	17.0%
Taxes not on Income	13.5	19.0	465.0	5.5	40.7%
Transportation Deprec Adj	(2.1)	(2.6)		(0.5)	23.8%
Interest	25.4	65.4	527.8	39.9	156.8%
Income before taxes	57.7	(31.9)		(89.6)	-155.2%
Calif. Corp. Franchise Tax					
State Tax Deductions	(69.7)	(131.4)		-61.7	88.6%
Taxable income for CCFT	(12.0)	(163.3)		(151.3)	1265.0%
CCFT Rate	8.84%	8.84%			
Additional Tax per D.84-05-036	0.0	(0.1)		(0.1)	0.0%
CCFT	(1.1)	(14.5)		(13.5)	1274.4%
Federal Income Tax					
Tax Depreciation	46.1	86.9		40.8	88.6%
State Corp Franch Tax	(1.1)	(8.7)		(7.6)	722.8%
Pref Stock Dividend Credit	0.0	0.0		0.0	0.0%
Taxable income for FIT	12.7	(110.1)		(122.7)	-967.6%
Domestic Prod. Activities Ded.	(1.1)	6.6		7.7	-708.5%
Adjusted Taxable Income	11.6	(103.5)		(115.1)	-991.8%
FIT Rate	35.00%	35.00%			
FIT	4.1	(36.2)		(40.3)	-991.8%
Investment Tax Credit	0.0	0.0		0.0	0.0%
Total FIT	4.1	(36.2)		(40.3)	-991.8%
Total FIT & CCFT	3.0	(50.7)		(53.7)	-1789.8%

TABLE 6-2

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
TAXES BASED ON INCOME

TEST YEAR 2011

(AT CWS PROPOSED RATES)

Item	DRA	CWS		CWS exceeds DRA Amount	%
	(Thousands of $)				
Operating revenues	910.5	924.3		13.8	1.5%
Deductions:					
O & M expenses	221.8	249.5		27.8	12.5%
A & G expenses	106.4	111.8		5.4	5.1%
G. O. Prorated expenses	75.1	101.5		26.4	35.2%
Exclude GO Book Depreciation	(10.0)	(11.7)		(1.7)	17.0%
Taxes not on Income	13.5	19.0	470.1	5.5	40.7%
Transportation Deprec Adj	(2.1)	(2.6)		(0.5)	23.8%
Interest	25.4	65.4	532.9	39.9	156.8%
Income before taxes	480.4	391.4		(89.0)	-18.5%
Calif. Corp. Franchise Tax					
State Tax Deductions	(69.7)	(131.4)		-61.7	88.6%
Taxable income for CCFT	410.8	259.9		(150.8)	-36.7%
CCFT Rate	8.84%	8.84%			
Additonal Tax per D.84-05-036	0.0	(0.1)		(0.1)	0.0%
CCFT	36.3	22.9		(13.4)	-37.0%
Federal Income Tax					
Tax Depreciation	46.1	86.9		40.8	88.6%
State Corp Franch Tax	36.3	3.6		-32.7	-90.1%
Pref Stock Dividend Credit	0.0	0.0		0.0	0.0%
Taxable income for FIT	398.0	300.9		(97.1)	-24.4%
Domestic Prod. Activities Ded.	(34.0)	(18.0)		16.0	-47.1%
Adjusted Taxable Income	364.0	282.9		-81.1	-22.3%
FIT Rate	35.00%	35.00%			
FIT	127.4	99.0		(28.4)	-22.3%
Investment Tax Credit	0.0	0.0		0.0	0.0%
Total FIT	127.4	99.0		(28.4)	-22.3%
Total FIT & CCFT	163.7	121.8		(41.9)	-25.6%

CHAPTER 7: UTILITY PLANT IN SERVICE

A. INTRODUCTION

The Redwood Valley District is composed of three sub-areas for ratemaking purposes: Lucerne, Unified, and Coast Springs. DRA's and CWS' estimates for the Lucerne, Coast Springs and Unified District Plant in Service for the Test Year 2011 and Escalation Year 2012 are shown in Tables 7-1 and 7-2 at the end of this chapter, for each respective sub-area.

DRA reviewed and analyzed CWS' testimony, application, Minimum Data Requirements, workpapers, capital project details, estimating methods, and responses to various DRA data requests. DRA also conducted a field investigation of most of the proposed specific plant additions before making its own independent estimates including adjustments where appropriate. Important and significant differences between DRA's and CWS' estimates of specific plant additions are attributed to the items as listed in Table 7-B.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends that 1) plant additions for seven specific projects in 2009 be disallowed or adjusted; 2) plant additions for one specific project in 2011 be adjusted; 3) plant additions for CWS' main, service and hydrant replacement program be adjusted to reflect DRA's estimates; 4) plant additions for carryover projects be adjusted to reflect DRA's estimates; and 6) plant additions for non-specifics in 2009 through 2012 be adjusted to reflect DRA's escalation factors. Based on these recommendations, DRA's estimates for the 2009, 2010, 2011, and 2012 plant additions are $349,300, $240,600, $420,400 and $238,400, respectively versus CWS' proposed amounts of $1,265,700, $1,699,000, $782,500 and $699,900, respectively for the same years.

Table 7-A. Redwood Valley Coast Springs District

Company funded Plant Additions,
Including Carryovers
(Thousands of Dollars)

	2009	2010	2011	2012	AVG
DRA	$4.1	$0	$3.3	$0	$1.9
CWS	$75.2	$318.6	$3.3	$252.6	$162.4

Table 7-B. Redwood Valley Lucerne District

Company funded Plant Additions,
Including Carryovers and Non-Specifics
(Thousands of Dollars)

	2009	2010	2011	2012	AVG
DRA	$338.2	$170.4	$417.1	$238.4	$291.0
CWS	$989.7	$233.0	$682.0	$447.3	$588.0

Table 7-C. Redwood Valley Unified District

Company funded Plant Additions,
Including Carryovers
(Thousands of Dollars)

	2009	2010	2011	2012	AVG
DRA	$7.0	$70.2	$0.0	$0.0	$19.3
CWS	$200.8	$1,147.4	$97.2	$0.0	$361.3

Table 7-D. Specific Project Differences Comparison

Budget Year	Project ID Number	Category	Project Description	CWS Proposed Budget	DRA Proposed Budget
2009	19907	Intangible Plant	CPUC Mandated Reports - Coast Springs - Sta. 7	$21,900	Canceled by CWS
2009	20295	Storage	Replace Clarifier Lining & Re-Coating - Sta. 1 - Lucerne	$86,400	$76,700
2009	20457	Equipment	Tools - Lucerne	$5,400	Use Non-specific

					budget
2009	20560	Equipment	Office Furniture - Guerneville	$8,100	Use Non-specific budget
2009	20561	Equipment	Office Furniture - Lucerne	$8,700	Use Non-specific budget
2009	20868	Equipment	Computer & Monitor - Lucerne	$2,600	Use Non-specific budget
2009	22309	Structures	Access Road - Sta. 2 - Lucerne	$359,200	$0
2010	20362	Mains, Services, Hydrants	Cliff Street - Oceanview - Coast Springs	$318,600	$0
2011	14844	Storage	Paint Interior & Exterior Complete - Sta.2 Arden Tank 1 - Lucerne	$175,529	$124,500
2011	20319	Mains, Services, Hydrants	Rancho Del Paradiso System - Unified	$97,200	$0
2012	20442	Mains, Services, Hydrants	Park Ave. - Coast Springs	$252,600	$0

C. DISCUSSION

In the Coast Springs district, CWS has recorded an average of $538,300 in gross plant additions during 2004-2007.[30] The district's average gross plant addition request for the period of 2009-2012 is $162,400. It should be emphasized that the recorded plant additions have exceeded the Commission authorized gross plant addition budgets during 2004-2007 by $1,044,200 which represents a 746% budgetary overrun of authorized additions for that period.[31] In the years since the last GRC (2006-2007 data), CWS has recorded $895,300 more gross additions

[30] Gross plant additions include company funded plant additions as well as contributions and advance deposits for specific plant.

[31] CWS Response to MD7-001. The authorized gross plant additions for this period averaged $123,500.

than authorized, not including 2008 which is difficult to quantify due to interim rates.[32] Because these additions have not been authorized (they are only mentioned once in a misleading sentence next to an unexplained table comparing authorized to recorded capital additions in Chapter 8 of the RO report) they escape reasonableness review while significantly increasing rates.

Table 7-E. Coast Springs Water Treatment Plant

Booked To Plant	
PID 8087	$397,940
PID 14318	$754,719
PID 14319	$244,760
	$1,397,419
Contributions	
DWR Overpayment	$120,461
SRF Loan Amount	$494,276
Included in ratebase	$782,682
Advice letter cap	- $341,800
Budgetary Overrun	**$440,882**

At least $440,900 of these budgetary overruns are due to projects 8087, 14318, and 14319 for the Coast Springs Water Treatment Plant which were authorized in the last rate case via advice letter with a cap of $341,800.[33] CWS stated that it intends to justify cost overruns for these three projects but DRA did not receive any information regarding the reasonableness or the unavoidable nature of the overruns. According to documents provided to CDPH in December 2003 regarding the SRF loan, the original budgetary estimate for the Coast Springs

[32] The calculated overrun accounts for the $614,800 in total funding provided by the SRF loan from CDPH and the DWR overpayment as shown in Table 5.

[33] According to email correspondence between CWS staff Long Nguyen and DRA utilities engineer Isaiah Larsen, CWS states, "Advice Letter 1945 was filed on 5/29/2009 to seek recovery for Projects 8087, 14318 and 14319 up to the capped amount of $341,800."

water treatment plant was $551,600.[34] The final cost booked to plant by CWS without any further justification was $1.4 million, a 154% budgetary overrun.

DRA recommends disallowing all cost overruns for the Coast Springs water treatment plant. The excessive level of capital additions since the last GRC have not been justified or explained in any shape or form by CWS in this GRC, and the $895,300 in known excess plant additions for Coast Springs should be removed from the 2009 beginning of year balance until CWS can provide reasonable justifications for the unprecedented level of budget overruns. On a going-forward basis, DRA recommends an average of $1,900 in gross plant additions during 2009-2012 for the Coast Springs District.

In the Lucerne district, CWS has recorded an average of $466,500 in gross plant additions during 2004-2007. The district's average gross plant addition request for the period of 2009-2012 is $611,300. It should be emphasized that the recorded plant additions have exceeded the Commission authorized gross plant addition budgets during 2004-2007 by $617,400 which represents a 49% budgetary overrun of authorized additions for that period.[35]

Table 7-F. Lucerne Water Treatment Plant & New Storage

Booked To Plant		
PID 8091	$1,602,200	
PID 12508	$672,100	AL Cap of $350,000
PID 14069	$6,266,100	
	$8,540,400	
SRF + DWR Loans	$8,084,800	

[34] CWS response to DRA data request MD7-015, Question 2. The $494,300 SRF loan has a 2.6% interest rate.

[35] CWS Response to MD7-001. The authorized gross plant additions for this period averaged $312,200.

Included in ratebase	$455,600
Subtract $350,000 AL	$105,600
Including PID 18382	$383,900

DRA recommended disallowance

$383,900 of the budgetary overruns is due to projects 8091 and 14069 for the Lucerne Water Treatment Plant and projects 18382 and 12508 for a new 300,000 gallon storage tank. Project 12508 was authorized in the last rate case via advice letter with a cap of $350,000, while project 18382 was not mentioned in the 2005 GRC DRA report, decision or settlement.[36] DRA did not receive any information regarding the reasonableness or the unavoidable nature of the overruns for these projects. According to Safe Drinking Water State Revolving Fund (SDWSRF) loan documents provided by CDPH in May 2009, the budgetary estimate for the Lucerne water treatment plant was updated to be $7,078,700.[37] The final cost booked to plant by CWS without any further justification was $7,868,300, an 11% budgetary overrun.

CWS lists project 12508 as related to the water treatment plant construction in response to a DRA data request, but in reality this project which added 300,000 gallons of storage at Station 2 is unrelated to the treatment plant. Because CWS also had $1,006,100 in loan funding from DWR, most of which was not needed for the treatment plant, CWS apparently decided to use this contribution to fund budgetary overruns in the water storage tank projects (12508 and 18382). DRA is not opposed to using all available low interest loan funds to reduce plant additions to ratebase, but is opposed to excessive undocumented budgetary overruns (project 12508 had a 192% overrun) and project 18382 which was not justified at all.

[36] Project 18382 was booked in 2008 at a total cost of $289,300 according to CWS response to DRA data request MD7-001.

[37] CWS response to DRA data request MD7-015, Question 2. The $7.1 million SRF loan has a zero percent interest rate.

DRA recommends removing $383,900 in capital costs from the beginning of year balance for utility plant in service in 2009. On a going-forward basis, DRA recommends an average of $291,000 in gross plant additions during 2009-2012 for the Lucerne District.

In the Unified district, CWS has recorded an average of $611,600 in gross plant additions during 2004-2007. The district's average gross plant addition request for the period of 2009-2012 is $364,500. It should be emphasized that the recorded plant additions have exceeded the Commission authorized gross plant addition budgets during 2004-2007 by $155,400 which represents a 34% budgetary overrun of authorized additions for that period.[38] On a going-forward basis, DRA recommends of an average of $19,300 in gross plant additions during 2009-2012 for the Unified District.

DRA issued multiple data requests investigating the significant mismatch between authorized and recorded capital additions for the last five years for all districts.[39] In its responses, CWS did not offer any meaningful explanation of the differences other than the fact that contributions and advances are estimated in the authorized additions column, while they derive from actual figures in recorded additions. DRA considers this level of recorded plant additions excessive, not compliant with previous Commission orders, and therefore recommends a systematic audit of actual capital additions and authorized budgets in the subsequent GRC, as was ordered in D.03-09-021 for all future CWS general rate cases.[40] On page 54 of that Decision, it states:

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[38] CWS Response to MD7-001. The authorized gross plant additions for this period averaged $456,200.

[39] DRA data requests MD7-001 and NKS-007.

[40] According to CWS Response to DRA data request NKS-007, CWS does not believe it needs to comply with Order 3 of D.03-09-021 which states, "In all future general rate case applications, Cal Water shall present an initial showing with the major changes that led to the requested change

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"We will, therefore, require that Cal Water submit a report in each of its future district general rate case filings showing budgeted capital projects and actual expenditures. We expect these reports to compare the budgeted capital projects to actual expenditures, and to explain each deviation and deferral, with revised in-service dates for the deferrals. We will use this historic analysis to guide our evaluation of any proposed capital projects."

1) Carryover Projects

CWS identifies $1,363,916 in carryover projects for the Unified District, $175,700 in carryover projects for the Lucerne District, and $89,200 in carryover projects for its Coast Springs District in its ratebase workpapers (totaling $1.63 million). In the Results of Operation report, CWS identifies $1,072,700 in carryover projects for the Unified District, with no carryovers listed for the other two districts. DRA was not able to reconcile the two estimates, even after a clarifying data request was sent.

Based upon the CWS response to DRA data request MD7-008 for all carryover projects, DRA calculated its carryover estimate by subtracting advice letter projects from the carryover totals, since advice letter projects have uncertain costs and completion dates, and may not occur at all.[41] Based upon its analysis, DRA recommends $20,800 in carryover projects for the Lucerne District, $77,200 in carryover projects for the Unified district and $4,100 in carryover projects for the Coast Springs District.

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identified and quantified. Each issue should include detailed explanations and justifications for the requested change, with cross-references to evidentiary support. All tables of data should be explained and analyzed. All necessary evidence should be included in the record."

[41] Advice letter projects are handled separately though a rate base offset.

CWS lists carryover project 12497 for manganese and iron removal in the Hawkins system within the Unified District with a budget of $130,100 in its RO report. This project was approved in the last GRC settlement with a capital budget of $70,000. DRA recommends approving the original capital budget only and has included these costs in its carryover budget estimate. CWS also lists carryover project 17546 for treatment of iron, manganese and arsenic in the Hawkins system at a total cost of $942,600 in 2010. This project was not discussed in the last GRC DRA Report, nor was it mentioned in the last Decision or Settlement. CWS provided no justification for its capital budget estimate, and it is not apparent that this project was approved in the last GRC decision. DRA recommends that project 17546 be disallowed due to insufficient justification and possible duplication of project 12497.

The advice letter deadline for carryover projects is the effective date for new rates in the current GRC, which is January 1, 2011.[42] DRA recommends that any advice letter projects it has not recommended disallowing should keep their existing deadlines and caps.

2) Main, Service & Hydrant Replacement Program

CWS' requests a total of $1.4 million from the years 2009-2012 in Company funded specific Mains, Service and Hydrant Replacement Projects as shown in Table 7 below:

Table 7-G. Requested Mains, Services and Hydrants Replacement Costs

	2009	2010	2011	2012	Totals
Mains	$172,300	$210,000	$257,800	$317,900	$958,000
Services	$55,100	$92,400	$70,481	$131,641	$349,622
Hydrants	$16,200	$16,200	$16,500	$32,700	$81,600

[42] D.06-08-011. OP 7, p.68.

Non-Specific Mains, Services, Streets and Hydrants	$91,200	$93,100	$95,200	$97,300	**$376,800**
Total Specific	$243,600	$318,600	$344,769	$482,276	**$1,389,244**
Total including non-specific	$334,800	$411,700	$439,969	$579,576	**$1,766,044**

The $1.4 million in specific projects is in addition to the requested $0.4 million in non-specific mains, service, street and hydrant replacement projects, for a total of $1.8 million in mains, hydrants and service replacement projects. CWS declined to provide historical costs for mains, services, hydrants and meters to DRA, despite multiple data requests.[43] All three Redwood Valley districts have high levels of unaccounted for water (UAF);[44] repairing and tracking leak history is essential to develop a prioritized main replacement program to effectively reduce water losses. Unfortunately, in the Unified and Coast Springs Districts, CWS was unable to produce any leak history record documentation for its main replacement projects; even though it claimed that the sections of main had a history of leaks. CWS' claimed justification for these projects usually asserts either numerous leaks or fireflow improvements as a justification for replacement of these mains, services and hydrants.

(a) **Fireflow:** In terms of fire flow, according to GO 103-A, "The utility shall not be responsible for modifying or replacing at its expense any existing facilities, which are otherwise adequate, in order to provide increased fire flow or duration due to changes in the standards after the initial construction."[45] CWS' replacement of pipe merely to improve fireflow cannot therefore be

[43] See non-responsive CWS answers to DRA data requests MD7-016, MD7-017 and NKS-005. CWS states in the responses that, "This level of detail is not readily available as Cal Water District does not track its annual cost of facilities in this manner."

[44] Based on the 2003-2008 average, CWS forecasts 28.3% UAF in the Lucerne's workpapers, 23.9% in the Coast Springs' workpapers, and between 26.8% and 28.4% in the Unified

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justified. This includes justifications for project 20442 with a 2012 capital budget of $252,600 in Coast Springs, and project 21005 with a 2011 capital budget of $97,200 in Rancho del Paradiso (Unified).

(b) **Leaks/100 miles of main:** Further, CWS provided the following response to ALJ O'Donnell's request for an exhibit showing CWS' methodology for mains replacement, "CWS annually determines the number of leak for each district on the basis of leaks per one hundred miles of main. This information along with the actual length of targeted mains in a district is used to set the annual target main replacement length." However, when DRA asked for the leaks per one hundred miles of main for projects in this GRC, CWS was unable to provide such information.[46]

(c) **Repair vs replacement:** When DRA asked CWS how it concluded a particular targeted main was beyond its "useful life", CWS responded: "In reality, one can extend the "useful life" of many facilities, but the cost to do so may outweigh the cost to replace."[47] However when DRA asked CWS if it did any analysis to show that the cost to repair was higher than the cost to replace for the targeted mains in this general rate case, CWS said it had not done such an analysis.[48]

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workpapers.

[45] GO 103-A, VI. Fire Protection Standards, 3.Replacement of Mains A.Changes to Fire Code, p.25.

[46] CWS' response to DRA data request NKS-006, question 7, attached in Appendix B to the Chico District Report.

[47] CWS' response to DRA data request NKS-002, question 11, attached in Appendix B to the Chico District Report.

[48] CWS' response to DRA data request NKS-002, question 8, attached in Appendix B to the Chico District Report.

DRA therefore concludes that CWS' is not able to effectively prioritize its specific hydrant, main and service replacement projects based on actual conditions of the pipe and using tools such as AWWA's "Decision Support System for Distribution System Piping Renewal", which have been available since 2002.[49] DRA notes that other utilities, such as California American Water Company, routinely prepare a "Condition Based Assessment" document prepared by a licensed professional engineer to assess the condition of their transmission and distribution systems, in each district to identify and prioritize investment in transmission and distribution infrastructure.[50]

In the Lucerne district, CWS did provide leak history information for three main replacement projects (projects 20314, 20319, and 20320). However, CWS' unit cost estimates for these projects are significantly higher than the $108 per linear foot budgeted in 2006-2008 by CWS for the Redwood Valley district main replacement program.[51]

DRA therefore recommends that the Commission:

1) Disallow the specific main replacement projects budget i.e. a total of $958,000.

[49] In its response to DRA data request NKS-002, question 12, CWS replied it had not used this or a similar tool to evaluate its mains targeted for replacement in this general rate case. The response is attached in Appendix B.

[50] For example, in A.08-01-027, Cal Am conducted a condition-based assessment of its infrastructure for its Monterey district, and prioritized its proposals in that rate case based on the condition of the infrastructure.

[51] CWS General Report on the Results of Operation and Prepared Testimony, July 1, 2009, Appendix 7. The internal CWS budgets and unit costs do not correspond to actual main replacement costs.

2) Allow the adjusted[52] non-specific budget in the amount of $343,300 for mains, service, street and hydrant projects to allow CWS to complete the three Lucerne main replacement projects (20314, 20319, and 20320) with high break rates.

3) Allow $151,800 and $46,200 in service and hydrant replacement projects costs, respectively, related to the three Lucerne main replacement projects.

4) Direct CWS to develop a "condition-based assessment" prepared by a licensed professional engineer including a prioritization plan, a comparison of the cost to repair versus replacement, and an analysis of leaks/100 miles to justify its main replacement programs in future rate cases.

3) Project 22309 – Access Road at Station 2

CWS budgets $359,200 in 2009 capital additions in order to secure a permanent easement and build an access road to Station 2 in the Lucerne system. CWS stated that the construction of the 1,044 foot paved access road was necessary to replace "an unpaved pathway situated along a similar alignment, which caused difficulties in accessing the tank site due to uneven natural terrains and soft and muddy soil conditions."[53] The road construction was a joint endeavor agreed to by CWS and the local property owner, which CWS originally stated was a prerequisite for building the new 300,000 gallon storage tank installed in 2008.[54] However, this project was not proposed to the Commission or DRA in

[52] Non-specific capital budgets have been adjusted for DRA's inflation forecast as discussed at the end of the chapter.

[53] CWS response to DRA data request MD7-015, Question 1.

[54] Project justification for PID 22309, in Final Application, A.09-07-001.

the last GRC when the tank construction was approved via an advice letter filing creating an incomplete picture of the actual costs for the new storage tank. In response to a subsequent data request, CWS did not state that the access road was required to construct the new tank, but that "it would benefit both parties" and a cost-sharing agreement was decided upon in exchange for a permanent easement.[55] CWS did not state why the existing arrangement of using with the unpaved pathway was unsatisfactory other than the "soft and muddy soil conditions."

DRA examined the settlement agreement between CWS and the landowner and determined that CWS should be responsible for no more than $210,100 based upon the final bid from the contractor hired for the road paving.[56] However, DRA does not agree that these costs were reasonably incurred. The access road was not completed until June 2009 according to the invoice from the contractor, which was after the new storage tank was constructed. As well, there did not appear to be any compelling reason for building such an expensive road merely to access a tank site more easily. CWS did not demonstrate that the soft and muddy conditions were preventing district staff from reaching the tank site or that vehicles were becoming stuck in the road. DRA therefore recommends that this project be disallowed and removed from capital additions for 2009.

4) Project 14844 – Paint Exterior and Interior of Tank 1 at Station 2

CWS budgets $175,500 in 2011 capital additions to repaint its 200,000 gallon tank at Station 2 in Lucerne. DRA observed the tank during its site visit

[55] In fact, there was already a 200,000 gallon tank at Station 2 prior to the 2008 construction of the new 300,000 gallon tank. It was clearly possible to construct the previous storage tank without paving an access road.

[56] CWS agreed to pay 75% of items 1-9 in the bid, plus $5,000, plus $7,500 for surveying work. DRA also included $4,700 for permits and fees as well as 8% overhead. CWS response to DRA data request MD7-015, Question 1.

and agrees with need for this project. DRA does not agree with the cost estimate for the interior painting however. CWS used a Bear Gulch tank painting project with a total interior area of 3,868 sq. ft. However, tank 1 will require 6,029 sq. ft of interior painting. Thus, a better reference would be Los Altos Blandor tank 2 with a total interior area of 5,847 sq. ft. which was completed in 2008 at a total cost of $83,079. Based upon the $14.21 per sq. ft. unit cost reference, DRA estimates a cost of $85,665 for the interior painting. DRA escalated this total for 3 years of inflation and added CWS' exterior estimate to arrive at a total cost of $129,600. DRA recommends approving this project at a adjusted cost of $129,600 in 2011 capital additions.

5) Projects 20457, 20560, 20561 & 20868 – Tools, Furniture and Computer Equipment

CWS budgets a total of $24,800 for four projects to add new tools, furniture, and computer hardware in the Lucerne and Guerneville offices. DRA understands the need for such projects but believes that they can best be handled through the non-specific budgets that CWS regularly uses for small purchases. DRA does not seek to micro-manage utilities expenditures and cannot examine the reasonableness of every purchase decision. Therefore, DRA recommends using CWS' estimated non-specific budget as recommended by DRA in the section below for these minor expenditures.

6) Project 20295 – Replace Clarifier Lining

CWS budgeted $86,400 in 2009 capital additions to replace the lining and re-paint the clarifier at its Lucerne water treatment plant. DRA inspected the condition of the clarifier during its site visit and agrees with the need to re-coat and paint the clarifier. Based upon the recent bid received by CWS for this project for a total cost of $71,000, DRA estimates that this project should cost $76,700 including the 8% overhead factor. Therefore, DRA recommends that this capital addition be approved at an adjusted cost of $76,700 in 2009.

7) Projects 19907 & 18792 – CPUC Mandated Reports and WS&FMP

CWS budgeted $21,900 for 2009 capital additions associated with project 19907 and $86,400 as a carryover budget for project 18792 for a WS&FMP. CWS stated in a response to a data request that project 19907 had been canceled.[57] In the last GRC, CWS and DRA agreed to defer project 7160 for a WS&FMP to the next rate case. However, CWS presented no information on project 18792 in this rate case, treating it as if it was already approved. DRA does not agree with this assertion and without any justification or explanation of the budget for this report cannot evaluate its reasonableness. DRA notes that the WS&FMP appeared to be prepared by internal staff but the current budget has increased beyond the $81,000 cost estimate in the 2005 GRC for preparation by a professional consultant. Therefore, DRA recommends disallowing capital additions associated with these projects.

8) Meter Replacement, 2009 to 2012

CWS proposes no specific budget during 2009-2012 to replace small customer meters. Based upon its analysis of the unaccounted for water problems in all three districts, DRA recommends that the Commission direct CWS to perform an audit of its in-service meters and present a database of all customer and production meters currently in service in all Redwood Valley districts.[58] CWS should include the following information on each meter: age, size, type, rated accuracy, and last date of maintenance or testing. In this manner, the Commission can determine if CWS is complying with GO 103-A schedules for meter replacement or retesting.

[57] CWS response to DRA data request MD7-015, Question 5.

[58] CWS currently has 1,944 customers in total for all Redwood Valley districts.

9) Non-specific Capital Budgets, 2009 to 2012

CWS proposed $203,900, $208,100, $213,000, and $217,600, respectively in plant additions for non-specifics in the four years from 2009 to 2012. CWS non-specific estimates are based on a 10-year average with a 2% yearly escalation factor. DRA agrees with using the 10-year average, but has used escalation factors for 2009 through 2012 from the May 2009 Energy Cost of Service Branch escalation factors memo. These factors are: 2009 = (5.5)%; 2010 = (0.1)%; 2011 = 2.0%; 2012 = 2.7%. Using these escalation factors the non-specific estimates are $170,600, $170,400, $173,800, and $178,400 for 2009, 2010, 2011, and 2012 respectively.

D. CONCLUSION

DRA's recommendations have been incorporated in the calculations for DRA's recommended Plant in Service as shown in Table 7-1 and Table 7-2.

TABLE 7-1

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
PLANT IN SERVICE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	1,605.2	2,899.6	1,294.4	80.6%
Additions				
Gross Additions	3.3	3.3	0.0	0.0%
Capitalized Interest	0.0	0.0	0.0	0.0%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	(4.4)	(4.4)	0.0	0.0%
Net Additions	(1.1)	(1.1)	0.0	0.0%
Adjustments				
Gen. Plant allocated to contracts	0.0	0.0	0.0	0.0%
Historic Capitalized Interest	0.0	0.0	0.0	0.0%
SRF Funded Treatment Plant	(494.3)	(494.3)	0.0	0.0%
Overpayment of DWR Loan	(120.5)	(120.5)	0.0	0.0%
Plant in Service - EOY	1,604.1	2,898.6	1,294.5	80.7%
Weighting Factor	14.8%	14.8%		
Wtd. Avg. Plant in Service	990.2	2,284.6	1,294.4	130.7%

TABLE 7-2

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
PLANT IN SERVICE

ESCALATION YEAR 2012

	Item	DRA	CWS	CWS exceeds DRA Amount	%
		(Thousands of $)			
	Plant in Service - BOY	1,604.1	2,898.6	1,294.5	80.7%
	Additions				
	Gross Additions	0.0	252.6	252.6	0.0%
	Capitalized Interest	0.0	6.2	6.2	0.0%
	Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
	Retirements	(4.4)	(4.4)	0.0	0.0%
	Net Additions	(4.4)	254.4	258.8	-5881.8%
	Adjustments				
	Gen. Plant allocated to contractors	0.0	0.0	0.0	0.0%
	Historic Capitalized Interest	0.0	0.0	0.0	0.0%
	SRF Funded Treatment Plant	(494.3)	(494.3)	0.0	0.0%
	Overpayment of DWR Loan	(120.5)	(120.5)	0.0	0.0%
	Plant in Service - EOY	1,599.7	3,153.0	1,553.3	97.1%
	Weighting Factor	14.8%	14.8%		
1	Wtd. Avg. Plant in Service	988.6	2,321.4	1,332.8	134.8%

TABLE 7-1

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
PLANT IN SERVICE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	13,165.8	14,280.2	1,114.4	8.5%
Additions				
Gross Additions	440.4	705.3	264.9	60.1%
Capitalized Interest	10.0	16.5	6.5	65.0%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	0.0	0.0	0.0	0.0%
Net Additions	450.4	721.8	271.4	60.3%
Adjustments				
Gen. Plant allocated to contracts	0.0	0.0	0.0	0.0%
Historic Capitalized Interest	0.0	0.0	0.0	0.0%
SRF Funded Treatment Plant	(7,078.7)	(7,078.7)	0.0	0.0%
DWR Funded Plant	(1,006.1)	(1,006.1)	0.0	0.0%
Plant in Service - EOY	13,616.2	15,002.0	1,385.8	10.2%
Weighting Factor	14.8%	14.8%		
Wtd. Avg. Plant in Service	5,147.6	6,302.1	1154.5	22.4%

TABLE 7-2

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
PLANT IN SERVICE

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	13,616.2	15,001.9	1,385.7	10.2%
Additions				
Gross Additions	261.7	470.6	208.9	79.8%
Capitalized Interest	6.2	11.3	5.1	82.3%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	0.0	0.0	0.0	0.0%
Net Additions	267.9	481.9	214.0	79.9%
Adjustments				
Gen. Plant allocated to contractors	0.0	0.0	0.0	0.0%
Historic Capitalized Interest	0.0	0.0	0.0	0.0%
SRF funded Treatment Plant	(7,078.7)	(7,078.7)	0.0	0.0%
DWR funded Plant	(1,006.1)	(1,006.1)	0.0	0.0%
Plant in Service - EOY	13,884.1	15,483.8	1,599.7	11.5%
Weighting Factor	14.8%	14.8%		
Wtd. Avg. Plant in Service	5,571.0	6,988.3	1,417.3	25.4%

TABLE 7-1

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
PLANT IN SERVICE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	1,744.5	3,046.2	1,301.7	74.6%
Additions				
Gross Additions	3.2	100.3	97.1	3034.4%
Capitalized Interest	0.1	2.5	2.4	2400.0%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	0.0	0.0	0.0	0.0%
Net Additions	3.3	102.8	99.5	3015.2%
Adjustments				
Gen. Plant allocated to contracts	0.0	0.0	0.0	0.0%
Historic Capitalized Interest	0.0	0.0	0.0	0.0%
DWR funded Plant	(260.0)	(260.0)	0.0	0.0%
Plant in Service - EOY	1,747.8	3,149.0	1,401.2	80.2%
Weighting Factor	14.8%	14.8%		
Wtd. Avg. Plant in Service	1,485.0	2,801.4	1316.4	88.6%

TABLE 7-2

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
PLANT IN SERVICE

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	1,747.8	3,149.0	1,401.2	80.2%
Additions				
Gross Additions	3.2	3.2	0.0	0.0%
Capitalized Interest	0.1	0.1	0.0	0.0%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	0.0	0.0	0.0	0.0%
Net Additions	3.3	3.3	0.0	0.0%
Adjustments				
Gen. Plant allocated to contractors	0.0	0.0	0.0	0.0%
Historic Capitalized Interest	0.0	0.0	0.0	0.0%
DWR Funded Plant	(260.0)	(260.0)		
Plant in Service - EOY	1,751.1	3,152.3	1,401.2	80.0%
Weighting Factor	14.8%	14.8%		
1 Wtd. Avg. Plant in Service	1,488.3	2,889.5	1,401.2	94.1%

CHAPTER 8: DEPRECIATION RESERVE AND DEPRECIATION EXPENSE

A. INTRODUCTION

This chapter presents DRA's analyses and recommendation on Depreciation for CWS' Redwood Valley District. Tables 8-1 and 8-2 show weighted average accumulated depreciation and amortization for Test Year 2011 and Escalation Year 2012.

B. SUMMARY OF RECOMMENDATIONS

Differences in DRA's and CWS' estimates are the result of different plant additions for the test year and the escalation year. These differences are discussed in Chapter 7, Plant in Service.

C. DISCUSSION

1) Coast Springs

CWS depreciation rates for components listed in the CPUC Uniform System of Accounts for Water Utilities are based on a "Depreciation Study as of December 31, 2006" prepared by AUS Consultants dated June 21, 2007. If the depreciation rates proposed in the study are used, instead of the depreciation rates adopted in D.06-08-011, the overall composite depreciation rate for the Redwood Valley Coast Springs District increases by 0.90% (from 2.65% to 3.55%) and 0.90% (from 2.66% to 3.56%) in Test Year 2011 and Escalation Year 2012, respectively.

DRA accepts the depreciation rates for accounts as provided by CWS, but recommends that DRA perform an audit of CWS' submitted Depreciation Study in the next General Rate Case. The Depreciation Study should use a 0% salvage value for small mains (<6" in diameter). This recommendation is consistent with

the procedure that CWS uses to replace these small mains, abandoning the old main in place, when it is replaced.[59]

Based on the annual depreciation rates for accounts as provided in CWS' Depreciation Study the CWS estimates of implicit composite depreciation rates are 3.55% for Test Year 2011 and 3.56% for Escalation Year 2012. The DRA estimates of implicit composite depreciation rates are 3.83% for Test Year 2011 and 3.84% for Escalation Year 2012.[60] Differences between CWS and DRA estimates for composite depreciation rate are due to differences in Plant-in-Service estimates and subsequent differences in Beginning of Year Gross Depreciable Plant, and Depreciation Annual Accrual. Differences in Plant-in-Service estimates are discussed in Chapter 7.

2) Lucerne

CWS depreciation rates for components listed in the CPUC Uniform System of Accounts for Water Utilities are based on a "Depreciation Study as of December 31, 2006" prepared by AUS Consultants dated June 21, 2007. If the depreciation rates proposed in the study are used, instead of the depreciation rates adopted in D.06-08-011, the overall composite depreciation rate for the Redwood Valley Lucerne District increases by 2.85% (from 2.83% to 5.68%) and 2.77% (from 2.80% to 5.57%) in Test Year 2011 and Escalation Year 2012, respectively.

DRA accepts the depreciation rates for accounts as provided by CWS, but recommends that DRA perform an audit of CWS' submitted Depreciation Study in the next General Rate Case. The Depreciation Study should use a 0% salvage value for small mains (<6" in diameter). This recommendation is consistent with

[59] For examples, as shown in Tab 55 of the 2009 Bakersfield District Project Justifications, the estimated cost of abandonment of 4" main is $0, this is also attached as Tab L in Appendix B to this report.

[60] Composite Depreciation Rates can be found in Workpaper 9-B2.

the procedure that CWS uses to replace these small mains, abandoning the old main in place, when it is replaced.[61]

Based on the annual depreciation rates for accounts as provided in CWS' Depreciation Study the CWS estimates of implicit composite depreciation rates are 5.68% for Test Year 2011 and 5.57% for Escalation Year 2012. The DRA estimates of implicit composite depreciation rates are 5.88% for Test Year 2011 and 5.81% for Escalation Year 2012.[62] Differences between CWS and DRA estimates for composite depreciation rate are due to differences in Plant-in-Service estimates and subsequent differences in Beginning of Year Gross Depreciable Plant, and Depreciation Annual Accrual. Differences in Plant-in-Service estimates are discussed in Chapter 7.

3) Unified

CWS depreciation rates for components listed in the CPUC Uniform System of Accounts for Water Utilities are based on a "Depreciation Study as of December 31, 2006" prepared by AUS Consultants dated June 21, 2007. If the depreciation rates proposed in the study are used, instead of the depreciation rates adopted in D.06-08-011, the overall composite depreciation rate for the Redwood Valley Unified District increases by 1.61% (from 3.11% to 4.72%) and 1.55% (from 3.07% to 4.62%) in Test Year 2011 and Escalation Year 2012, respectively.

DRA accepts the depreciation rates for accounts as provided by CWS, but recommends that DRA perform an audit of CWS' submitted Depreciation Study in the next General Rate Case. The Depreciation Study should use a 0% salvage value for small mains (<6" in diameter). This recommendation is consistent with

[61] For examples, as shown in Tab 55 of the 2009 Bakersfield District Project Justifications, the estimated cost of abandonment of 4" main is $0, this is also attached as Tab L in Appendix B to this report.

[62] Composite Depreciation Rates can be found in Workpaper 9-B2.

the procedure that CWS uses to replace these small mains, abandoning the old main in place, when it is replaced.[63]

Based on the annual depreciation rates for accounts as provided in CWS' Depreciation Study the CWS estimates of implicit composite depreciation rates are 4.72% for Test Year 2011 and 4.62% for Escalation Year 2012. The DRA estimates of implicit composite depreciation rates are 4.10% for Test Year 2011 and 4.10% for Escalation Year 2012.[64] Differences between CWS and DRA estimates for composite depreciation rate are due to differences in Plant-in-Service estimates and subsequent differences in Beginning of Year Gross Depreciable Plant, and Depreciation Annual Accrual. Differences in Plant-in-Service estimates are discussed in Chapter 7.

D. CONCLUSION

DRA reviewed and accepts the methodologies outlined in CWS' Depreciation Study. DRA recommends an audit of CWS' Depreciation Study in the next GRC.

DRA recommends that the Commission adopt DRA's adjusted numbers for depreciation.

[63] For examples, as shown in Tab 55 of the 2009 Bakersfield District Project Justifications, the estimated cost of abandonment of 4" main is $0, this is also attached as Tab L in Appendix B to this report.

[64] Composite Depreciation Rates can be found in Workpaper 9-B2.

TABLE 8-1

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Depreciation Reserve - BOY	403.0	404.5	1.5	0.4%
Accruals				
Transportation Equipment	0.0	0.5	0.5	0.0%
Contributed Plant	0.0	0.0	0.0	0.0%
Allocated non-reg contracts	0.0	0.0	0.0	0.0%
Other Plant in Service	92.0	98.9	6.9	7.5%
Total Accruals	92.0	99.4	7.4	8.0%
Retirements	(5.5)	(5.5)	0.0	0.0%
Depreciation Reserve - EOY	489.5	498.4	8.9	1.8%
Weighting Factor	50%	50%		
Wtd. Avg. Depr. Reserve	446.3	451.5	5.2	1.2%

TABLE 8-2

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR 2012

	Item	DRA	CWS	CWS exceeds DRA Amount	%
		(Thousands of $)			
	Depreciation Reserve - BOY	489.5	498.4	8.9	1.8%
	Accruals				
	Transportation Equipment	0.2	0.7	0.5	250.0%
	Contributed Plant	0.0	0.0	0.0	0.0%
	Allocated non-reg contracts	0.0	0.0	0.0	0.0%
	Other Plant in Service	91.8	98.7	6.9	7.5%
	Total Accruals	92.0	99.4	7.4	8.0%
	Retirements	(5.5)	(5.5)	0.0	0.0%
	Depreciation Reserve - EOY	576.0	592.3	16.3	2.8%
	Weighting Factor	50%	50%		
1	Wtd. Avg. Depr. Reserve	532.8	545.4	12.6	2.4%

TABLE 8-1

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2011

	Item	DRA	CWS	CWS exceeds DRA Amount	%
		(Thousands of $)			
	Depreciation Reserve - BOY	1,145.0	1,167.2	22.2	1.9%
	Accruals				
	Transportation Equipment	6.3	7.4	1.1	17.5%
	Contributed Plant	10.8	10.4	(0.4)	-3.7%
	Allocated non-reg contracts	0.0	0.0	0.0	0.0%
	Other Plant in Service	151.0	164.2	13.2	8.7%
	Total Accruals	168.1	182.0	13.9	8.3%
	Retirements	0.0	0.0	0.0	0.0%
	Depreciation Reserve - EOY	1,302.3	1,338.8	36.5	2.8%
	Weighting Factor	50%	50%		
1	Wtd. Avg. Depr. Reserve	1,223.7	1,253.0	29.3	2.4%

TABLE 8-2

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR 2012

	Item	DRA	CWS	CWS exceeds DRA Amount	%
		(Thousands of $)			
	Depreciation Reserve - BOY	1,302.3	1,338.8	36.5	2.8%
	Accruals				
	Transportation Equipment	8.1	9.2	1.1	13.6%
	Contributed Plant	12.0	11.5	(0.5)	-4.2%
	Allocated non-reg contracts	0.0	0.0	0.0	0.0%
	Other Plant in Service	164.1	184.7	20.6	12.6%
	Total Accruals	184.2	205.4	21.2	11.5%
	Retirements	0.0	0.0	0.0	0.0%
	Depreciation Reserve - EOY	1,486.5	1,544.2	57.7	3.9%
	Weighting Factor	50%	50%		
1	Wtd. Avg. Depr. Reserve	1,388.4	1,435.7	47.3	3.4%

TABLE 8-1

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2011

	Item	DRA	CWS	CWS exceeds DRA Amount	%
		(Thousands of $)			
	Depreciation Reserve - BOY	565.2	571.2	6.0	1.1%
	Accruals				
	Transportation Equipment	1.7	2.0	0.3	17.6%
	Contributed Plant	1.3	1.6	0.3	23.1%
	Allocated non-reg contracts	0.0	0.0	0.0	0.0%
	Other Plant in Service	68.2	138.4	70.2	102.9%
	Total Accruals	71.2	142.0	70.8	99.4%
	Retirements	0.0	0.0	0.0	0.0%
	Depreciation Reserve - EOY	635.1	711.6	76.5	12.0%
	Weighting Factor	50%	50%		
1	Wtd. Avg. Depr. Reserve	600.2	641.4	41.3	6.9%

TABLE 8-2

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Depreciation Reserve - BOY	635.1	711.7	76.6	12.1%
Accruals				
Transportation Equipment	1.7	2.0	0.3	17.6%
Contributed Plant	1.5	1.7	0.2	13.3%
Allocated non-reg contracts	0.0	0.0	0.0	0.0%
Other Plant in Service	68.1	140.0	71.9	105.6%
Total Accruals	71.3	143.7	72.4	101.5%
Retirements	0.0	0.0	0.0	0.0%
Depreciation Reserve - EOY	706.4	855.4	149.0	21.1%
Weighting Factor	50%	50%		
Wtd. Avg. Depr. Reserve	670.0	782.7	112.7	16.8%

CHAPTER 9: RATEBASE

A. INTRODUCTION

DRA and CWS' estimates for Rate Base for Test Year 2011 and Escalation Year 2012 are discussed in this Chapter.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends adoption of its estimates for: Plant in Service, Depreciation Reserve, and Rate Base.

C. DISCUSSION

Tables 9-1 & 9-2 show DRA's and CWS' estimates of Rate Base for Test Year 2011 and Escalation Year 2012. The significant differences between the Rate Base developed by DRA and CWS are due to the differences in the estimates for Weighted Average Plant in Service, Depreciation, Working Cash, and General Office Allocation.

D. NET-TO-GROSS MULTIPLIER

The net-to-gross multiplier represents the change in gross revenue required to produce a unit change in net revenue. Both DRA and CWS have calculated three multipliers which reflect: 1) the increase required under 100% equity-financing where State and Federal taxes are incurred; 2) the increase required under 100% debt financing where taxes are not incurred (identical to the increase necessary to offset expenses); and 3) the increase required for additions to ratebase, which incorporates the capital structure and financing costs of the utility.[65]

[65] As adopted in Commission Decision 09-05-019

DRA and CWS use similar methodologies in calculating the net-to-gross multipliers. Calculations are shown in Table 9-3 and results are presented below. DRA's adjustment to the Domestic Production Activities Deduction (*see Chapter 5*) results in slightly higher numbers than those calculated by CWS.

California Water Service Company
Redwood Coast Springs
Net to Gross Multiplier

	CWS	DRA
100% Equity	**1.60246**	**1.60964**
100% Debt (expense)	**1.00000**	**1.00000**
Ratebase Additions	**1.32159**	**1.32543**

California Water Service Company
Redwood Lucerne
Net to Gross Multiplier

	CWS	DRA
100% Equity	**1.61964**	**1.70575**
100% Debt (expense)	**1.01072**	**1.01072**
Ratebase Additions	**1.33576**	**1.38173**

California Water Service Company
Redwood Unified
Net to Gross Multiplier

	CWS	DRA
100% Equity	**1.47166**	**1.62058**
100% Debt (expense)	**1.00447**	**1.00447**
Ratebase Additions	**1.25386**	**1.33335**

TABLE 9-1

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd. Avg. Plant in Serv.	990.2	2,284.6	1,294.4	130.7%
Materials & Supplies	1.6	1.6	0.0	0.0%
Working Cash - Lead-Lag	28.8	39.4	10.6	36.6%
Amt withheld from Employees	0.2	(0.2)	-0.4	-200.0%
Wtd. Avg. Depr. Res.	(446.3)	(451.5)	(5.2)	1.2%
Interest Bearing CWIP	0.0	0.0	0.0	0.0%
Advances	0.0	0.0	0.0	0.0%
Contributions	(1.0)	(1.0)	0.0	0.0%
Reserved Amort. Intangibles	52.4	57.8	5.4	10.3%
Deferred Taxes	73.3	73.3	0.0	0.0%
Unamortized ITC	0.0	0.0	0.0	0.0%
General Office Alloc	49.4	49.4	0.0	0.0%
Taxes on - Advances	0.0	0.0	0.0	0.0%
Taxes on - CIAC	21.7	21.7	0.0	0.0%
Average Rate Base	521.0	1,815.0	1,294.0	248.4%
Interest Calculation:				
Avg Rate Base	521.0	1,774.2	1,253.2	240.5%
x Weighted Cost of Debt	3.16%	3.16%	0.0%	0%
Interest Expense	16.5	56.1	39.6	240.5%
less Cap. Interest	0.0	0.0	0.0	0.0%
Net Interest Expense	16.5	56.1	39.6	240.5%

TABLE 9-2

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd. Avg. Plant in Service	988.6	2,321.4	1,332.8	134.8%
Material & Supplies	1.6	1.6	0.0	0.0%
Working Cash - Lead-Lag	26.6	41.0	14.4	54.3%
Amt withheld from Employees	0.2	(0.2)	-0.4	-200.0%
Wtd. Avg. Depr. Reserve	(532.8)	(545.4)	(12.6)	2.4%
Interest Bearing CWIP	0.0	0.0	0.0	0.0%
Advances	0.0	0.0	0.0	0.0%
Contributions	(1.0)	(1.0)	0.0	0.0%
Reserved Amort. Intangibles	63.4	72.4	9.0	14.2%
Deferred Taxes	78.4	78.4	0.0	0.0%
Unamortized ITC	0.0	0.0	0.0	0.0%
General Office Alloc	48.0	48.0	0.0	0.0%
Taxes on - Advances	0.0	0.0	0.0	0.0%
Taxes on - CIAC	20.8	20.8	0.0	0.0%
Average Rate Base	412.3	1,737.4	1,325.1	321.4%
Interest Calculation:				
Avg Rate Base	412.3	1,695.0	1,282.7	311.1%
x Weighted Cost of Debt	3.16%	3.16%	0.0%	0.0%
Interest Expense	13.0	53.6	40.5	311.1%
less Cap. Interest	0.0	0.0	0.0	0.0%
Net Interest Expense	13.0	53.6	40.5	311.1%

TABLE 9-3

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT
NET-TO-GROSS MULTIPLIER

TEST YEAR 2011
AND ESCALATION YEAR 2012

Item	DRA	CWS
1) Uncollectibles %	0.00000%	0.00000%
2) 1-Uncoll (100%-line 1)	100.00000%	100.00000%
3) Franchise tax rate	0.00000%	0.00000%
4) Local Franchise (line 3*line 2)	0.00000%	0.00000%
5) Business license rate	0.00000%	0.00000%
6) Business license (line 5*line 2)	0.00000%	0.00000%
7) Subtotal (line 1+line 4+line 6)	0.00000%	0.00000%
8) 1-Subtotal (100%-line7)	100.00000%	100.00000%
9) CCFT (line 8 * 8.84%)	8.84000%	8.84000%
10) Domestic Production Activities Deduction *	8.20440%	9.00000%
11) FIT (line 8 minus line 9 minus line 10 * 35%)	29.03446%	28.75600%
12) Total taxes paid (ln 7+ln 9+ln 10)	37.87446%	37.59600%
13) Net after taxes (1-line 11)	62.12554%	62.40400%

Net-to-Gross Multiplier (1/line 12) = 1.60964 (DRA)
Net-to-Gross Multiplier (1/line 12) = 1.60246 (Utility)

* DRA - Line 8 minus Line 9 multiplied by 9% multiplied by percentage of Qualified Activities
CWS - only multiplies Line 8 by 9%.

This net-to-gross multiplier is to be used for changes in net revenue attributable to rate of return changes only and not to be used for rate base offsets. The net-to-gross for rate base offsets is much lower because the interest payments for the debt portion of rate base increase is tax deductible.

TABLE 9-1

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd.Avg. Plant in Serv.	5,147.6	6,302.1	1,154.5	22.4%
Materials & Supplies	4.5	4.5	0.0	0.0%
Working Cash - Lead-Lag	113.2	146.7	33.5	29.6%
Amt withheld from Employees	0.6	(0.6)	-1.2	-200.0%
Wtd. Avg. Depr. Res.	(1,223.7)	(1,253.0)	(29.3)	2.4%
Interest Bearing CWIP	0.0	0.0	0.0	0.0%
Advances	0.0	0.0	0.0	0.0%
Contributions	166.2	166.4	0.2	0.1%
Reserved Amort.Intangibles	8.6	19.2	10.6	123.3%
Deferred Taxes	447.9	447.9	0.0	0.0%
Unamortized ITC	0.0	0.0	0.0	0.0%
General Office Alloc	181.0	181.0	0.0	0.0%
Taxes on - Advances	0.0	0.0	0.0	0.0%
Taxes on - CIAC	23.0	23.0	0.0	0.0%
Average Rate Base	3,623.5	4,770.2	1,146.7	31.6%
Interest Calculation:				
Avg Rate Base	3,623.5	4,619.6	996.1	27.5%
x Weighted Cost of Debt	3.16%	3.16%	0.0%	0%
Interest Expense	114.5	146.0	31.5	27.5%
less Cap. Interest	0.0	0.0	0.0	0.0%
Net Interest Expense	114.5	146.0	31.5	27.5%

TABLE 9-2

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd. Avg. Plant in Service	5,571.0	6,988.3	1,417.3	25.4%
Material & Supplies	4.5	4.5	0.0	0.0%
Working Cash - Lead-Lag	110.3	153.0	42.7	38.7%
Amt withheld from Employees	0.6	(0.6)	-1.2	-200.0%
Wtd. Avg. Depr. Reserve	(1,388.4)	(1,435.7)	(47.3)	3.4%
Interest Bearing CWIP	0.0	0.0	0.0	0.0%
Advances	0.0	0.0	0.0	0.0%
Contributions	178.1	178.7	0.6	0.3%
Reserved Amort. Intangibles	9.5	27.2	17.7	186.3%
Deferred Taxes	467.3	467.3	0.0	0.0%
Unamortized ITC	0.0	0.0	0.0	0.0%
General Office Alloc	175.6	175.6	0.0	0.0%
Taxes on - Advances	0.0	0.0	0.0	0.0%
Taxes on - CIAC	22.5	22.5	0.0	0.0%
Average Rate Base	3,841.2	5,234.5	1,393.3	36.3%
Interest Calculation:				
Avg Rate Base	3,841.2	5,077.6	1,236.4	32.2%
x Weighted Cost of Debt	3.16%	3.16%	0.0%	0.0%
Interest Expense	121.4	160.5	39.1	32.2%
less Cap. Interest	0.0	0.0	0.0	0.0%
Net Interest Expense	121.4	160.5	39.1	32.2%

TABLE 9-3

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT
NET-TO-GROSS MULTIPLIER

TEST YEAR 2011
AND ESCALATION YEAR 2012

Item	DRA	CWS
1) Uncollectibles %	1.06087%	1.06087%
2) 1-Uncoll (100%-line 1)	98.93913%	98.93913%
3) Franchise tax rate	0.00000%	0.00000%
4) Local Franchise (line 3*line 2)	0.00000%	0.00000%
5) Business license rate	0.00000%	0.00000%
6) Business license (line 5*line 2)	0.00000%	0.00000%
7) Subtotal (line 1+line 4+line 6)	1.06087%	1.06087%
8) 1-Subtotal (100%-line7)	98.93913%	98.93913%
9) CCFT (line 8 * 8.84%)	8.74622%	8.74622%
10) Domestic Production Activities Deduction *	0.00000%	8.90452%
11) FIT (line 8 minus line 9 minus line 10 * 35%)	31.56752%	28.45094%
12) Total taxes paid (ln 7+ln 9+ln 10)	41.37461%	38.25803%
13) Net after taxes (1-line 11)	58.62539%	61.74197%

Net-to-Gross Multiplier (1/line 12) = 1.70575 (DRA)
Net-to-Gross Multiplier (1/line 12) = 1.61964 (Utility)

* DRA - Line 8 minus Line 9 multiplied by 9% multiplied by percentage of Qualified Activities
CWS - only multiplies Line 8 by 9%.

This net-to-gross multiplier is to be used for changes in net revenue
attributable to rate of return changes only and not to be used for rate base offsets.
The net-to-gross for rate base offsets is much lower because the interest payments
1 for the debt portion of rate base increase is tax deductible.

TABLE 9-1

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd.Avg. Plant in Serv.	1,485.0	2,801.4	1,316.4	88.6%
Materials & Supplies	1.9	1.9	0.0	0.0%
Working Cash - Lead-Lag	30.8	52.7	21.9	71.2%
Amt withheld from Employees	(0.2)	(0.2)	0.0	0.0%
Wtd. Avg. Depr. Res.	(600.2)	(641.4)	(41.3)	6.9%
Interest Bearing CWIP	0.0	0.0	0.0	0.0%
Advances	0.0	0.0	0.0	0.0%
Contributions	28.9	28.8	(0.1)	-0.3%
Reserved Amort.Intangibles	2.8	2.8	0.0	0.0%
Deferred Taxes	124.7	124.7	0.0	0.0%
Unamortized ITC	0.0	0.0	0.0	0.0%
General Office Alloc	41.5	61.7	20.2	48.7%
Taxes on - Advances	0.0	0.0	0.0	0.0%
Taxes on - CIAC	2.8	2.8	0.0	0.0%
Average Rate Base	805.2	2,122.6	1,317.4	163.6%
Interest Calculation:				
Avg Rate Base	805.2	2,068.2	1,263.0	156.8%
x Weighted Cost of Debt	3.16%	3.16%	0.0%	0%
Interest Expense	25.4	65.4	39.9	156.8%
less Cap. Interest	0.0	0.0	0.0	0.0%
Net Interest Expense	25.4	65.4	39.9	156.8%

TABLE 9-2

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd. Avg. Plant in Service	1,488.3	2,889.5	1,401.2	94.1%
Material & Supplies	1.9	1.9	0.0	0.0%
Working Cash - Lead-Lag	31.2	73.4	42.2	135.6%
Amt withheld from Employees	(0.2)	(0.2)	0.0	0.0%
Wtd. Avg. Depr. Reserve	(670.0)	(782.7)	(112.7)	16.8%
Interest Bearing CWIP	0.0	0.0	0.0	0.0%
Advances	0.0	0.0	0.0	0.0%
Contributions	30.3	30.3	0.0	0.0%
Reserved Amort. Intangibles	5.8	5.8	0.0	0.0%
Deferred Taxes	168.5	168.5	0.0	0.0%
Unamortized ITC	0.0	0.0	0.0	0.0%
General Office Alloc	36.0	59.8	23.8	66.1%
Taxes on - Advances	0.0	0.0	0.0	0.0%
Taxes on - CIAC	2.8	2.8	0.0	0.0%
Average Rate Base	685.3	2,039.9	1,354.5	197.6%
Interest Calculation:				
Avg Rate Base	685.3	1,964.8	1,279.4	186.7%
x Weighted Cost of Debt	3.16%	3.16%	0.0%	0.0%
Interest Expense	21.7	62.1	40.4	186.7%
less Cap. Interest	0.0	0.0	0.0	0.0%
Net Interest Expense	21.7	62.1	40.4	186.7%

TABLE 9-3

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT
NET-TO-GROSS MULTIPLIER

TEST YEAR 2011
AND ESCALATION YEAR 2012

Item	DRA	CWS
1) Uncollectibles %	0.44492%	0.44492%
2) 1-Uncoll (100%-line 1)	99.55508%	99.55508%
3) Franchise tax rate	0.00000%	0.00000%
4) Local Franchise (line 3*line 2)	0.00000%	0.00000%
5) Business license rate	0.00000%	0.00000%
6) Business license (line 5*line 2)	0.00000%	0.00000%
7) Subtotal (line 1+line 4+line 6)	0.44492%	0.44492%
8) 1-Subtotal (100%-line7)	99.55508%	99.55508%
9) CCFT (line 8 * 8.84%)	8.80067%	8.80067%
10) Domestic Production Activities Deduction *	7.75950%	8.95996%
11) FIT (line 8 minus line 9 minus line 10 * 35%)	29.04822%	22.80409%
12) Total taxes paid (ln 7+ln 9+ln 10)	38.29381%	32.04968%
13) Net after taxes (1-line 11)	61.70619%	67.95032%

Net-to-Gross Multiplier (1/line 12) = 1.62058 (DRA)
Net-to-Gross Multiplier (1/line 12) = 1.47166 (Utility)

* DRA - Line 8 minus Line 9 multiplied by 9% multiplied by percentage of Qualified Activities
CWS - only multiplies Line 8 by 9%.

This net-to-gross multiplier is to be used for changes in net revenue attributable to rate of return changes only and not to be used for rate base offsets. The net-to-gross for rate base offsets is much lower because the interest payments for the debt portion of rate base increase is tax deductible.

CHAPTER 10: CUSTOMER SERVICE

A. INTRODUCTION

DRA has reviewed California Water Service Company's ("CWS'") filing, responses to DRA data requests, and data obtained from the Commission's Consumer Affairs Branch regarding customer complaints in the Redwood Valley District.

B. SUMMARY OF RECOMMENDATIONS

DRA finds CWS' customer service record satisfactory and the customer service process reasonable.

C. DISCUSSION

1) Customer calls and complaints

The customer service representatives ("CSR") in the district office handle all customer complaint calls. When a customer calls the district office, the CSR logs the date and time of the call along with a description of the complaint into the Customer Service Information system. The majority of customer complaints are resolved the same day they are received. Billing questions make up a large portion of the calls received by the district office. The CSR tries to resolve the billing issue directly. However, if a resolution can not be reached, the Customer Services Manager in each district is empowered to make billing adjustments as needed.

All customer complaints filed with the Commission are sent to the CWS rates department and follow a different procedure than described above. The rates department contacts the district office to inform them of the complaint with the goal of resolving the issue within 7 days. The district office researches the complaint, contacts the customer to inform them of the investigations findings and works to reach a resolution. Then the district office submits its findings and resolution to CWS' rates department for review. CWS' rates department then

contacts the Commission's Division of Water and Audits or the Consumer Affairs branch to present the complaint findings. Complaints filed by customers with the Commission since the last GRC were few in number. In general, most of the filed complaints regarded billing, with one concerning water quality.

2) Water Quality complaints

CWS' records indicate that the number of water quality complaints have been low relative to the number of customers in the Redwood Valley District. An effective system is in place to receive and record customer complaints concerning water quality. Customer complaints regarding taste and odor are handled by a CSR who explains to the customer why those types of conditions occur. Other types of complaints, such as low pressure or the presence of sand in the water, require a serviceman to go out to the premises and investigate the complaint. When a service call is required, the CSR notifies the maintenance department. CWS assigns personnel to investigate the problem, notify the customer, and resolve the issue. The majority of these complaints are resolved by inspecting the premises. CWS tracks all water quality complaints in their system and records them on a monthly summary report.

Table 10-A shows water quality customer complaint data for the last three years. There are six categories for the different kinds of water quality complaints. These categories are defined as:

- Air - can be trapped in water causing a milky appearance which goes away when allowed to stand and the air goes to the surface;
- Dirty - can be discolored water or sand in the water from mainline flushing or a main break in the area;
- Noise - can be associated with the water system, such as wells turning on, or the customer's internal plumbing;
- Pressure - can be too high or too low; and

- Taste or odor - can be stronger than usual from chlorine, or a musty odor the customer is not accustomed to.

Table 10-A

Redwood Valley District Customer Water Quality Complaints			
Type	2006	2007	2008
Air	0	2	31
Dirty water	12	4	0
Noise	0	1	18
Pressure	9	21	1
Sand	0	0	0
Taste/Odor	1	2	2
Total	22	30	52
Number of Customers	1,959	1,958	1,951
Total as % of Customers	1.1%	1.5%	2.7%

CWS did not track water quality complaints by service areas, only for the whole district. In 2008 there were 31 complaints regarding air. CWS explains that air can enter the system as a result of normal operations. There are two different types of air issues that can occur in a water system: 1) air build-up can occur when there is a temporary operational change to the water system, such as closing a valve, or 2) when certain maintenance activities are performed. This can cause intermittent sputtering of air out of a faucet. Entrained air occurs when air enters the water system during the water treatment process or is released from groundwater. Entrained air can cause the water to look white or "milky." This unusual appearance is safe, and the air will dissipate when allowed to stand in a glass or pitcher.

In response to a DRA data request (ALC-006) regarding these air complaints, CWS explains:

The air complaints are district-wide (sex separate systems), and do not appear to be related to a specific area, event or issue. Air complaints can be the result of main line leaks, service line leaks, entrained air from pumps, to not a few

of the potential reasons for the air. District personnel indicated there were not any significant changes in operations that may have caused the increase in this type of complaint. The district will continue to monitor this issue, and if the number of complaints continues to increase, or does not return to previous minimal levels, then the district will analyze the complaints by system to determine the reason for the air in the water.

In 2008, there were 18 complaints related to noise. CWS states that the noise complaint classification encompasses several different issues. Water noise complaints are usually caused by the customer's plumbing, but CWS always sends service personnel to investigate. The service personnel determine if the noise is originating from the CWS system or from the customer's plumbing and offers tips to the customer if it is determined to be their plumbing.

Problems with the CWS system are reported to district management for further investigation and remediation. A problem could be caused by: 1) an improperly operating pressure reducing valve; 2) surges when a control valve in the system is opened or closed too rapidly; and 3) crews have opened or closed a fire hydrant to flush a main, or to conduct a fire flow test. All noise complaints are taken seriously and investigated promptly. While most noise issues are not serious, CWS investigates to make certain the problem is not, or does not become, serious enough to cause damage to the water system.

There were 21 complaints in 2007 regarding pressure. CWS determined that the problem, in most cases, was due to the customer's plumbing, such as service lines being clogged. Other pressure complaints related to inadequately sized mains for the demand placed on them resulting in lowered pressure. Pressure complaints can also be related to main leaks or repairs of main leaks. All complaints were investigated and resolved to the customer's satisfaction.

D. CONCLUSION

DRA recommends the Commission find CWS' customer service to be satisfactory.

CHAPTER 11: RATE DESIGN

A. INTRODUCTION

In this GRC application (09-07-001), CWS requested changes to the non-residential rate design in Special Request #6, and requested changes to the residential rate design in Special Request #11. Thus, the scope of this chapter is limited to recommendations regarding:

1) The Water Revenue Adjustment Mechanism and Modified Cost Balancing Accounts ("WRAM/MCBA"),[66]
2) Impacts of the conservation rate designs to date
3) Impacts on Low Income customer disconnections, and
4) Low income rate assistance surcharges
5) Removal of WRAM/MCBA in Redwood Valley

B. SUMMARY OF RECOMMENDATIONS

1) a. WRAM/MCBA Should Ensure Ratepayers Do Not Bear the Full Burden of the Economic Downturn

DRA recommends that the Commission require CWS to modify the WRAM/MCBA so that it does not disproportionately disadvantage ratepayers compared to shareholders. The WRAM should no longer require ratepayers to pay the full difference between the authorized quantity revenue and actual quantity revenue. The Commission should modify the WRAM/MCBA so that if there are reductions in consumption, ratepayers and shareholders should split this difference equally. This will ensure that ratepayers and shareholders are proportionally affected when conservation rates are implemented.

[66] Other than recommendations regarding WRAM/MCBA in DRA's special request chapters.

1) b. WRAM/MCBA surcredits should be a flat amount applied to the service charge

When there is a combined over-collection in the WRAM/MCBA, the over-collection should be passed on to ratepayers through a flat surcredit on the service charge. This change to the surcredit mechanism will ensure that water-conserving customers who use less water do not receive less surcredit than customers who use large quantities of water. This will enhance the conservation price signal.

2) Not Yet Enough Data to Determine Impacts of Conservation Rate Designs

This GRC application from CWS contains six months of consumption data after CWS implemented the rate design and WRAM/MCBA mechanism Trial Programs. Six months of consumption data is not long enough to draw conclusions about the impacts of the conservation rate designs. The Commission should evaluate the impacts of the conservation rate designs in CWS' next GRC.

3) The Commission should require CWS to monitor disconnections by month and communicate payment options to customers

The Commission should require CWS to continue to track the number of residential and LIRA customer disconnections per month. If the number of disconnections has increased, CWS should develop a low-cost customer communication plan to reduce the number of disconnections. In particular, CWS should place messaging in customers' bills and on its website explaining to customers the options that are available to them if they cannot pay their bills.

4) The Commission should authorize CWS to increase the surcharge for the low-income rate assistance program as necessary to continue to provide the benefit to qualifying customers

CWS states that it proposed to increase the surcharge to fund the low-

income rate assistance ("LIRA") program.[67] DRA supports an increase in the surcharge to support the forecasted participation levels in the LIRA program.

5) The Commission should require CWS to Remove Redwood Valley's WRAM/MCBA Decoupling Mechanism

The Commission should require CWS to remove Kern River Valley's WRAM/MCBA decoupling mechanism because CWS did not implement conservation rates in this district, and has no plan to do so during this GRC cycle.

C. DISCUSSION

1) a. WRAM/MCBA Should Ensure Ratepayers Do Not Bear the Full Burden of the Economic Downturn

When the Commission adopted the WRAM/MCBA decoupling mechanism for CWS, the concept of the mechanism was to ensure a proportional impact on the utility and ratepayers when CWS implemented conservation rates. DRA's settlement with CWS, adopted in D.08-02-036 states:

> "Parties agree that the desired outcome and purpose of using WRAMs and MCBAs is to ensure that the utility and ratepayers are proportionally affected when conservation rates are implemented.
>
> a. In the context of this agreement, a proportional impact means that, if consumption is over or under the forecasted level, the effect on either the utility or ratepayers (as a whole) should reflect that the costs or savings resulting from changes in consumption will be accounted for in a way such that neither the utility or ratepayers are harmed, or benefit, at the expense of the other party."[68]

[67] Report on the Results of Operation, July 1, 2009.

[68] Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, p. 10, section X.2. Filed June 15, 2007, adopted in Decision 08-02-036.

Since it is too early to evaluate quantitative usage data on the impacts of the conservation rate designs,[69] it is difficult to determine how much sales have decreased due to the effects of conservation oriented rates. But it is unreasonable to assume that all recorded decrease in sales was entirely due to conservation oriented rates and conservation programming, as it is certain that some portion of the decrease was due to the economic downturn and other factors. Yet, as a result of the WRAM/MCBA, ratepayers are currently bearing the full cost of the economic downturn. This issue must be addressed immediately. Therefore, until the impacts of conservation efforts can be better quantified, DRA recommends that the Commission modify the WRAM so that if there are reductions in consumption, rather than ratepayers being required to pay the full difference between the authorized quantity revenue and actual quantity revenue, ratepayers and shareholders split this difference equally. This will ensure that ratepayers and shareholders are proportionally affected under the WRAM/MCBA decoupling mechanism, when conservation rates are implemented in accordance with the settlement.[70]

This issue should be examined in the next GRC, when over three years of consumption information will be available after the implementation of the WRAM/MCBAs and conservation rates. However, it is clear at this time that the WRAM/MCBA mechanisms have led to an unintended consequence: the WRAM shields shareholders from all financial consequences of the severe economic downturn, while ratepayers bear the full cost of the economic downturn. This is

[69] At the time CWS filed this GRC, there were only six months of usage data after implementation of the WRAM/MCBA and rate design Trial Programs, and CWS did not provide an analysis of this usage information to determine whether the utility and ratepayers are proportionally affected when conservation rates were implemented.

[70] Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, p. 10, section X.2. Filed June 15, 2007, adopted in Decision 08-02-036.

an unintended consequence of the WRAM/MCBA trial program, not one of the goals of the program.[71]

While there is not currently a method available to apportion reductions in usage to each different cause – such as conservation and changes in economic conditions, it is clear that there are different factors that can affect water usage and each of them contribute to usage reductions. This is contrary to the WRAM/MCBA, which compensates CWS for all of the reductions in consumption, not just usage reductions from conservation. The Commission should modify the WRAM/MCBA mechanism so that it does not disproportionately disadvantage ratepayers compared to shareholders.

Further, the Commission specifically addressed the possible impact of a WRAM/MCBA for California American Water Company during an economic downturn in decision 08-06-002, p. 16, which stated:

> "One disparate impact that could occur in the Pilot Program period would be a severe economic downturn in one or more of the Los Angeles service areas that causes a significant decrease in revenues. This could occur from a high rate of home foreclosures and/or business slowdowns or shutdowns. We find this would clearly be a disparate impact as the WRAM mechanism would shield shareholders from all financial consequences of the economic downturn while requiring ratepayers to bear the full cost. Since Cal-Am will be tracking sales levels by customer class and service area, any disparate impact can be quickly seen and addressed."

---

[71] The goals of the WRAM/MCBA mechanism trial program were three-fold:

a)"Sever the relationship between sales and revenue to remove any disincentive for the utility to implement conservation rates and conservation programs

b)Ensure cost savings resulting from conservation are passed on to ratepayers.

c)Reduce overall water consumption by Cal Water ratepayers." (see the Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, p. 8, section VI.1. Filed June 15, 2007, adopted in Decision 08-02-036).

CWS tracks sales levels by customer class and service area; and it is possible to calculate and graph changes in consumption in different classes and service areas. However, it is much more complex to determine or even speculate about the reasons for the changes in consumption. Especially because of the significant economic downturn in recent years, that happens to coincide with implementation of increasing block rates, makes it difficult to draw conclusions about the reasons for any changing consumption patterns. Also, all CWS' districts undercollected revenue in the WRAM account during July – December 2008, except Bakersfield, King City, and Palos Verdes.[72] This is an indication that sales were lower than forecasted for almost all districts during this timeframe.

The WRAM should no longer require ratepayers to pay the full difference between the authorized quantity revenue and actual quantity revenue. The Commission should modify the WRAM/MCBA so that ratepayers and shareholders split this difference equally. This will ensure that ratepayers and shareholders are proportionally affected when conservation rates are implemented.

1) b. WRAM/MCBA Surcredits Should Be a Flat Amount Applied to the Service Charge

When there is a combined under-collection in the WRAM/MCBA, this should be recovered from ratepayers through volumetric surcharges, in accordance with Decision 08-02-036. This maintains the conservation price signals of the surcharge because customers who use more water pay a larger portion of the surcharge. However, when there is a combined over-collection in the WRAM/MCBA, this should be passed on to ratepayers through a flat surcredit on the service charge. This change to the surcredit mechanism will ensure that water-conserving customers who use less water do not receive less surcredit than customers who use large quantities of water. Furthermore, this will also enhance the conservation price signal.

[72] CWS WRAM/MCBA report to the Division of Water and Audits, March 2009

This recommendation is important in light of the first six months of WRAM/MCBA and Rate Design Trial Program implementation where the over and under-collections in the net balance of the WRAM/MCBA typically were far greater than the 2.5%[73] trigger. In fact these balances were 10% or greater in seven districts, and were between 5% and 10% in another seven districts.[74]

2) Not Yet Enough Data to Determine Impacts of Conservation Rate Designs

DRA and CWS reached a settlement agreement on rate design and revenue decoupling on April 23, 2007, and amended the settlement on June 15, 2007. The Commission ultimately adopted the settlement on February 28, 2008 in decision 08-02-036, and CWS had 90 days after the Commission decision adopting the settlement before the Trial Program became effective. CWS implemented the Trial Program, including the WRAM/MCBAs and conservation rate designs, via Advice Letter 1855, which became effective on July 1, 2008. CWS filed this GRC application in July 2009, and included data through December 2008. Thus, this GRC contains six months of consumption data after CWS implemented the WRAM/MCBA mechanisms. Six months of consumption data is not long enough to draw conclusions about the impacts of the conservation rate designs.[75]

3) CWS should track low income disconnections on a monthly basis and provide this information in its annual report to the Commission on the WRAM/MCBA balances

Ordering Paragraph 6 from the Phase 1A Decision 08-02-036 from the conservation OII (I.07-01-022) ("OP6") requires CWS to provide data related to

[73] The trigger is "2.5% of the district's total recorded revenue requirement for the prior calendar year" (see Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, Section IX 3) d., Filed June 15, 2007, adopted in Decision 08-02-036.

[74] See CWS WRAM/MCBA report to the Division of Water and Audits, March 2009.

[75] See Special Request #11 for further discussion.

the implementation of the conservation rate design trial programs. Specifically, OP6 states:

> "6. Suburban, Park, and CalWater shall provide the following information in their next general rate case: monthly or bimonthly (depending upon the billing cycle) … increase or decrease in disconnecting low-income program participants for nonpayment by district after adoption of conservation rate designs; increase or decrease in low-income program participation by district after adoption of conservation rate designs; increase or decrease in residential disconnections for nonpayment by district after adoption of conservation rate designs…."

In this GRC application, CWS provided some of the information required in this Ordering Paragraph.[76] In particular, CWS provided information on customer disconnections for both residential and LIRA customer groups for the firs six months of Trial Program implementation between July 1, 2008 and December 31, 2008. However, this data incorrectly "double-counted" low income customer disconnections.[77] CWS provided corrected data for July 2008 through July 2009. However, CWS did not yet provide information about customer disconnections prior to July 2008.[78] In order for the Commission to assess the "increase or decrease" in low-income disconnections when CWS implemented the

[76] Prepared Testimony of David Morse, p. 28 – 31.

[77] Email from CWS (Tu Rash), on 1/13/2010, states regarding the query Cal Water originally ran for Dave Morse "in effect that query double counted the number of LIRA customers."

[78] DRA requested information on residential and LIRA customer disconnections from July 2007 through July 2009 in LWA-5 on 12/22/09, and CWS provided an initial response on 12/31/09, but it did not correspond to the numbers in David Morse' testimony, so CWS provided a revised response on 1/5/2010, but this still did not correspond to the numbers in David Morse' testimony. CWS provided a further revised response on 1/13/2010, but this only provided data from 2008-2009. At the time DRA had to finalize this testimony, it had not yet received final numbers for residential and LIRA customer disconnections from July 2007 through 2009, although DRA is confident CWS would have provided the information to comply with this ordering paragraph had there been unlimited time.

conservation rate design and WRAM/MCBA Trial Programs, pursuant to the above Ordering Paragraph, data on customer disconnections from before and after the implementation of the conservation rate designs must be compared. Since CWS only provided information from after the implementation of conservation rate designs, this is not in compliance with OP 6. DRA believes CWS intended to provide the correct information and CWS should provide this information in its rebuttal testimony so that the Commission can consider it in this proceeding.

On a going forward basis, the Commission should require CWS to continue to track the number of residential and LIRA customer disconnections per month and report this information in the annual report that CWS submits to the Commission by March 31 each year regarding WRAM/MCBA balances.[79] If the number of disconnections has increased, CWS should develop and implement a low-cost customer communication plan to reduce the number of disconnections. In particular, CWS should place messaging on customer bills and on CWS' website explaining to customers the options that are available to them if they cannot pay their bills. For example, PG&E has a message on its website that says:

> "We Know Times Are Tough.
> If you or someone you know is having trouble paying your bill, we can help. Please call us today at 1-800-743-5000 so we can discuss program options and payment arrangements that work for you."[80]

Another example is San Diego Gas and Electric Company, which has messaging on its website that provides a rotational link to

[79] Pursuant to "Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues," section IX 3), Filed June 15, 2007, adopted in Decision 08-02-036.

[80] http://www.pge.com/myhome/ (accessed 1/28/2010).

"Need Extra Help With Your Bill? Learn about available assistance" and "Get extra help with your bill."[81]

4) The Commission should authorize CWS to increase the surcharge for the low-income rate assistance program as necessary to continue the benefit for qualifying customers

CWS states that it proposed to increase the surcharge to fund the low-income rate assistance ("LIRA") program.[82] The Commission authorized the LIRA program in D.06-11-053, and it provides a 50% discount on the service charge to qualifying households. DRA supports the continuation of the LIRA program as authorized in D.06-11-053. To the extent that an increase in the surcharge is necessary to support the LIRA program at forecasted participation levels, the Commission should authorize the increase in the surcharge. DRA notes that this surcharge is combined with the surcharge for the Rate Support Fund ("RSF") and that CWS' requested increase from $0.009 to $0.015 per ccf[83] also includes the additional funding to support CWS' increases in the RSF subsidies. For this reason, the required increase in the surcharge to support only the LIRA program should be lower than $0.015 per ccf and should be calculated based upon the final revenue requirement in this case as well as the adopted rate of participation in the LIRA program.

5) The Commission Should Require CWS to Remove Redwood Valley's WRAM/MCBA Decoupling Mechanism

The CWS districts where CWS did not implement conservation rates should not have a WRAM/MCBA mechanism. In the settlement that the Commission adopted in the Water Conservation Order Instituting Investigation

[81] http://www.sdge.com/index/ (accessed 1/28/2010).

[82] Report on the Results of Operation, July 1, 2009, Chapter 12 "Present and Requested Tariffs" states that customers pay a surcharge of $0.009 per Ccf to fund the program and that CWS proposes to increase the surcharge to $0.015 per Ccf.

[83] Additional Prepared Testimony of Thomas Smegal, Special Request 11, p. 15, lines 21-22.

(D.08-02-036), the parties agreed that "Group 3" districts (Antelope Valley – Fremont, Kern River Valley, and Redwood Valley – Lucerne, Coast Springs and United) would not have conservation rates during the Trial Program.[84] However, the parties agreed to revisit this in the next GRC.[85]

The purpose of the WRAM/MCBA mechanism is to take away CWS' disincentive to implement conservation rates. As stated in the settlement adopted in D.08-02-036, one of the goals of the decoupling mechanisms in the Trial Program is to "(s)ever the relationship between sales and revenue to remove any disincentive for the utility to implement conservation rates and conservation programs."[86] If no increasing block rates are implemented, a WRAM/MCBA is not warranted. It appears to be an oversight from the settlement that each district has a WRAM/MCBA, rather than applying a WRAM/MCBA to each district with conservation rates. The Commission should require CWS to remove the WRAM/MCBA from Antelope Valley-Fremont, Kern River Valley, and Redwood Valley – Lucerne, Coast Springs and United districts.

The features of the Group 3 districts are shown in the table below.

[84] "Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company," filed 6/15/07, D.08-02-036, p. 3, Section IV. 1) c.

[85] "Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company," filed 6/15/07, D.08-02-036, p. 6, Section IV. 5) d.

[86] "Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company," filed 6/15/07, D.08-02-036, Section VI. 1) a.

Table 1 – Features of CWS' Group 3 Districts

District	CWS proposed % increase in Revenue Requirement[87]	Estimated Median Annual Household Income (2000)[88] [89]	Proposed Bill for typical customer use in 2011 after RSF subsidy[90]
Kern River Valley	36.5%	$31,537	$81.36
Antelope Valley (Fremont)	73.1%	$47,622	$77.42
RV – Coast Springs	154.8%	$47,679	$185.45
RV – Unified	86.3%	$40,404	$149.08
RV – Lucerne	54.9%	$25,345	$84.09

The proposed bills for typical customers would be even higher than shown if not for the RSF subsidy (see DRA's testimony regarding Special Request #11). Given the high water rates in the Group 3 districts as well as the proposed substantial rate increases, the low median income, and high number of low-income customers, the customers in the Group 3 districts should not have a WRAM/MCBA decoupling mechanism. Furthermore these customers, in particular, should not bear the full additional risk from a decrease in sales, as would be the case under the current WRAM/MCBA mechanism.[91]

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[87] Application 09-07-001, Attachment G – Notices to Customers.

[88] Estimates of median household income for 2000 census are from http://www.calmis.ca.gov/file/demoinc/INC2000-Place.XLS; accessed January 12, 2010

[89] DRA Report on the Application of California Water Service for a Rate Base Equalization Account (RBEA), December 19, 2005.

[90] Application 09-07-001, Attachment G – Notices to Customers; for RSF districts, this average bill includes the RSF subsidy.

[91] Decision 08-08-030 in proceeding I.07-01-022, Finding of Fact 19 states: "The Commission

(continued on next page)

D. CONCLUSION

The Commission should adopt the recommendations on rate design and revenue decoupling included in this chapter.

(continued from previous page)
generally has found that decoupling mechanisms reduce risk, all other things being equal."

CHAPTER 12: WATER QUALITY

A. INTRODUCTION

The Rate Case Plan requires water utilities to submit information about water quality in their GRC applications. This Chapter presents DRA's review of water quality submittals by California Water Service Company ("CWS") for the Redwood Valley District and CWS' responses to DRA's data request.

The California Department of Public Health ("CDPH") is the primary agency responsible for ensuring that the water provided to the public by the District is safe for consumption. DRA reviewed the most recent CDPH inspection report and the District's response, if available, and the CDPH's response to DRA's inquiry on the District's water quality issues and compliance status.

B. SUMMARY OF RECOMMENDATIONS

Based upon the information provided by the company and by the CDPH, CWS' Redwood Valley District appears to be in compliance with all applicable water quality standards and requirements. Exceptions if any are noted below.

C. DISCUSSION

CWS' Redwood Valley District has six water systems in Lake, Marin and Sonoma Counties. The six water systems, serving a combined population of approximately 3,100, are: Armstrong Valley, Coast Springs, Hawkins, Lucerne, Noel Heights and Rancho del Paradiso. Lucerne is situated in CDPH District 3 (Mendocino); the other five are in CDPH District 18 (Sonoma).

DRA requested input from the relevant CDPH Districts regarding water quality issues in these systems. The CDPH in its response lists the following

issues: copper in Noel Heights, and iron, manganese and arsenic for Hawkins.[92] Following are discussions on water quality issues in each of the six Redwood Valley systems.

1) Armstrong Valley System

Armstrong has two active groundwater wells. The only treatment currently in place is disinfection. CWS reports that this system meets all applicable drinking water standards.

2) Coast Springs System

Coast Springs has a groundwater system under the influence of surface water ("GWUI") system. It started Long-Term Two Surface Water Treatment Rule ("LT2SWTR") monitoring in October 2008.

CWS reports that its water supply has high levels of natural organic and inorganic matter, as well as fairly high levels of particulates. Of its eight total wells, the largest well (Well 4-01) produces about 70% of its total water production. The remaining 30% comes from a collection of seven wells referred to as "hill wells." Water from the hill wells flows through an underground pipeline to a raw water collection tank at the treatment plant and is mixed with Well 4-01 water. All wells have elevated levels of iron and manganese. Current treatments in this system include iron and manganese removal, membrane filtration, disinfection and corrosion control.

Nitrate - Well 4-01 has elevated levels of nitrates, ranging from 25 to 35 mg/L. CWS blends water from Well 4-01 with water from the hill wells, which also has elevated nitrate levels (but lower than that of Well 4-01). The nitrate levels in the blended water range from 20 to 25 mg/L. CWS expects this level to

[92] December 17, 2009 email communications from Janice Oakley of CDPH to DRA.

increase and exceed nitrate Maximum Contaminant Level (MCL) of 45 mg/L by 2015 to 2020.[93] It proposes installation of nitrate treatment at the treatment plant in the next two to three years.[94]

In December 2007, the CDPH issued two technical violations for the Coast Springs water system for failure to collect the required samples by the specified deadlines.[95]

3) Hawkins System

The Hawkins system serves 51 customers. It is a groundwater system with only one active well and one standby well (on standby since 2006).

Arsenic - Both active and standby wells have arsenic levels that are slightly below the primary MCL.

Iron and Manganese - The system's groundwater is highly mineralized with high concentrations of iron and manganese. CWS reports that the Hawkins system currently does not meet drinking water standards for iron and manganese. CWS has received several complaints of brown water unfit for drinking and causing black stains to plumbing fixtures and other appliances.[96] The one active well has manganese levels that are nine times the secondary MCL. The system uses ozone treatment to oxidize iron and manganese. However, CWS reports that the ozone system has not been sufficiently effective at removing these minerals and is currently planning other treatment options.

[93] Testimony of Chet Auckly (Water Quality), page 35.
[94] Ibid.
[95] Testimony of Chet Auckly (Water Quality), page 60.
[96] CWS' response to DRA's data request 11.b.i.

4) Lucerne System

Lucerne system is served by a surface water treatment plant. Its source water is Clear Lake. CWS report numerous water quality issues in Lucerne:

- algal blooms and high Geosmin concentrations in the lake during the summer season which resulted in higher turbidities and customer complaints;
- high disinfection by-product ("DBP") formation due to high organic concentrations and the resultant high chlorination to treat the high organic concentrations;
- taste and odor.

CWS reports that it received a MCL exceedance violation for Total Trihalomethanes ("TTHM") in August 2007. CWS was fined $350 and required to issue public notification. CWS completed the needed modification in June 2008 and has reduced the TTHM levels. CWS reports that to date its TTHM values are in compliance.

5) Noel Heights System

The Noel Heights system has only one active well and is a groundwater system under the influence of surface water ("GWUI"). The system's current water treatment includes pre-filtration, filtration, and disinfection with sodium hypochlorite and ultra-violet.

Copper - CWS initiated a corrosion control system in 2006 to address lead and copper contaminations. CWS reports that although copper levels have fallen, they still exceed the 90th percentile action level. Because of this exceedance, the Noel Heights system does not meet all drinking water standards. CWS states that because the corrosion inhibitor has not removed copper adequately, pH and/or

alkalinity adjustment should be pursued to achieve compliance. CWS is installing an "air diffuser system" at the treatment plant to adjust the pH of the treated water.[97]

Noel Heights' manganese levels are close to the secondary MCL. Current manganese levels range from non-detect to 69 ug/L. In response to DRA's inquiry, CWS states that it is addressing its primary compliance concerns with corrosion control at this time and will address the manganese concern at a later date.[98]

6) Rancho del Paradiso System

The Rancho del Paradiso system is supplied mainly from a connection to the Sweetwater Springs Water District ("SSWD"). The system's current water treatment consists of booster pump chlorination for the distribution system. CWS reports that there are no water quality issues in this system.

D. CONCLUSION

Based on information received, it appears that CWS' Redwood Valley District is in compliance with all applicable water quality standards and requirements, except for the instances described above.

[97] CWS' response to DRA's data request PPM-001, Item 11.d.i.
[98] CWS' response to DRA's data request PPM-001, Item 11.d.ii.

CHAPTER 13: STEP RATE INCREASE

A. FIRST ESCALATION YEAR

On or after November 1, 2011, the Commission shall authorize CWS to file a Tier 1 advice letter, with appropriate supporting workpapers, requesting the step rate increase for 2012 or to file a lesser increase in the event that the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 2011, exceeds the lesser of (a) the rate of return found reasonable by the Commission for CWS for the corresponding period in the most recent rate decision or (b) the rate of return found reasonable in this case. This filing should comply with General Order 96-B.

The Commission's Water Division ("Water Division") should review the requested step rates to determine their conformity with this order, and the requested step rates should go into effect upon the Water Division's determination of compliance. The Water Division should inform the Commission if it finds that the proposed rates do not comply with this Decision. The Commission may then modify the increase. The effective date of the revised tariff schedule should be no earlier than January 1, 2012. The revised schedules should apply to service rendered on and after their effective date. Should a rate decrease be in order, the rates should become effective on the filing date.

B. SECOND ESCALATION YEAR

For the second year, the Commission should grant an attrition adjustment for the revenue requirement increases attributable to expense increases due to inflation and rate base increases that are not offset by revenue increases. The revenue changes shall be calculated by multiplying forecasted inflation rate and operational attrition plus financial attrition times adopted rate base in 2012 times the net-to-gross multiplier.

C. ESCALATION YEARS INCREASES

The table below shows the Summaries of Earnings for Escalation Years 2012 and 2013. To obtain the increases in these years, D. 04-06-018 and D. 07-05-062 require water utilities to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting their requested increases.

The revenues shown in Table 12-1 are for illustration purposes and the actual increases would be authorized only after approval of the utility's advice letter.

TABLE 13-1

SUMMARY OF EARNINGS

CALIFORNIA WATER SERVICE COMPANY
COAST SPRINGS RATE AREA
REDWOOD VALLEY DISTRICT

Item	DRA 2011 (Thousands of $)	DRA 2012	% increase	
Operating revenues	458.3	453.1	-1.1%	Esc. Factor
Operation & Maintenance	157.7	161.8	2.6%	1.026
Administrative & General	63.5	65.0	2.4%	1.024
G.O. Prorated Expense	60.7	62.3	2.6%	1.026
Depreciation & Amortization	91.8	94.2	2.6%	1.026
Taxes other than income	6.2	6.4	2.6%	1.026
State Corp. Franchise Tax	10.6	9.3	-12.5%	
Federal Income Tax	32.5	28.1	-13.4%	
Total operating expenses	423.0	427.0	1.0%	
Net operating revenue	35.4	26.0	-26.4%	
Rate base	412.3	303.5	-26.4%	
Return on rate base	8.58%	8.58%	0.0%	

TABLE 13-1

SUMMARY OF EARNINGS

CALIFORNIA WATER SERVICE COMPANY
LUCERNE RATE AREA
REDWOOD VALLEY DISTRICT

Item	DRA 2011 (Thousands of $)	DRA 2012	% increase	
Operating revenues	1,680.2	1,743.8	3.8%	Esc. Factor
Operation & Maintenance	572.4	587.3	2.6%	1.026
Administrative & General	234.7	240.3	2.4%	1.024
G.O. Prorated Expense	222.2	228.0	2.6%	1.026
Depreciation & Amortization	164.1	168.4	2.6%	1.026
Taxes other than income	57.9	59.4	2.6%	1.026
State Corp. Franchise Tax	27.0	29.8	10.3%	
Federal Income Tax	72.3	82.3	13.9%	
Total operating expenses	1,350.6	1,395.5	3.3%	
Net operating revenue	329.6	348.3	5.7%	
Rate base	3,841.2	4,058.9	5.7%	
1 Return on rate base	8.58%	8.58%	0.0%	

TABLE 13-1

SUMMARY OF EARNINGS

CALIFORNIA WATER SERVICE COMPANY
UNIFIED RATE AREA
REDWOOD VALLEY DISTRICT

Item	DRA 2011 (Thousands of $)	DRA 2012	% increase	
Operating revenues	591.0	587.0	-0.7%	Esc. Factor
Operation & Maintenance	225.0	230.9	2.6%	1.026
Administrative & General	107.8	110.4	2.4%	1.024
G.O. Prorated Expense	75.8	77.8	2.6%	1.026
Depreciation & Amortization	68.1	69.9	2.6%	1.026
Taxes other than income	13.3	13.6	2.6%	1.026
State Corp. Franchise Tax	8.5	7.0	-17.4%	
Federal Income Tax	33.8	28.9	-14.3%	
Total operating expenses	532.2	538.4	1.2%	
Net operating revenue	58.8	48.5	-17.5%	
Rate base	685.3	565.5	-17.5%	
1 Return on rate base	8.58%	8.58%	0.0%	

APPENDIX A

QUALIFICATIONS AND PREPARED TESTIMONY

QUALIFICATIONS AND PREPARED TESTIMONY
OF
PATRICK E. HOGLUND

Q1. Please state your name and business address.

A1. My name is Patrick E. Hoglund. My business address is 505 Van Ness Avenue, San Francisco, California.

Q2. By whom are you employed and in what capacity?

A2. I am employed by the California Public Utilities Commission – Division of Ratepayer Advocates (DRA) Water Branch - as a Senior Utilities Engineer.

Q3. Please briefly describe your educational background and work experience.

A3. I am a graduate of the University of California, Berkeley, with a Bachelor of Science Degree in Industrial Engineering and Operations Research. I am also a graduate of the University of Rochester, William E. Simon School of Business with a Master of Business Administration Degree with concentrations in Finance and Corporate Accounting. I am a licensed professional Industrial Engineer.

I have been employed by the California Public Utilities Commission since 2005. Currently I work on Class A water General Rate Cases. From July 1999 through August 2004, I was a Senior Rates Analyst at Pacific Gas and Electric Company, where I worked on a variety of revenue requirements issues related to natural gas. From 1990 through 1997, I was employed by the California Public Utilities Commission. During this time I worked on small water utility rate cases, large water utility rates cases, and also worked in the Telecommunications and Energy Branches of the former Commission Advisory and Compliance Division, as well as in DRA.

Q4. What are your responsibilities in this proceeding?

A4. I am the Co-Project Manager for this proceeding with overall responsibility for twelve CWS Districts: Bear Gulch, Chico, Dixon, Livermore, Los Altos, Marysville, Mid-Peninsula, Oroville, Redwood Valley, South San Francisco, Stockton, and Willows. I am also responsible for the Executive Summary, Chapter 1-Overview and Policy, and Chapter 13-Step Rate Increase of the district reports.

Q5. Does this conclude your prepared testimony?

A5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
LISA BILIR

Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1 My name is Lisa Bilir and my business address is 505 Van Ness Avenue, San Francisco, California, 94102. I am a Public Utilities Regulatory Analyst V in the Water Branch of the Division of Ratepayer Advocates.

Q.2 Please summarize your education background and professional experience.

A.2 I received my Bachelor of Science degree in Biological Sciences from Stanford University in 2001 and a Master of Public Policy from The Goldman School of Public Policy at U.C. Berkeley in 2007.

From August 2006 to June 2007 I worked in the Water Branch of DRA as a graduate student intern. I have been a full-time staff member in DRA since October 2007. Since then I completed a settlement with California-American Water's (CAW) Los Angeles district and the City of Duarte on conservation rate design and revenue decoupling issues. I was DRA's project manager for CAW's conservation application for the Monterey District, where I completed settlements with CAW and Monterey Peninsula Water Management District on conservation programs and plans. I also submitted testimony in CAW's Monterey District GRC regarding conservation rate design and revenue decoupling issues and reached a settlement on that issue. In addition, I completed a settlement with San Gabriel Valley Water Company (SGVWC) in May 2008 regarding an interim budget and funding mechanism for conservation programs in its Fontana Water Company Division. I am DRA's project manager for SGVWC's conservation application A.08-09-008 and submitted testimony regarding rate design, revenue decoupling and reporting requirements in that proceeding.

Q.3 What is your responsibility in this proceeding?

A.3 I am responsible for the chapters on Rate Design, and Special Requests 1, 6, 11, 12, 13, 15, and 29 and I am a co-author for the chapters on Revenue and Special Request #28. For the Revenue chapters, I am primarily responsible for the number of customer and revenue calculations; for the Special Request #28, I am responsible for the portion of the chapter other than the Introduction and discussion of an OIR.

Q.4 Does this conclude your prepared direct testimony?

A.4 Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
ZACHARY BURT

Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1 My name is Zachary Burt and my business address is 505 Van Ness Avenue, San Francisco, CA 94102. I am an intern in the Water Branch of the Division of Ratepayer Advocates.

Q.2 Please summarize your education background and professional experience.

A.2 I received a dual bachelor's degree in Economics and Chemistry from the University of California at Berkeley in 2001. I received a Master's of Science from the Energy and Resources Group at U.C. Berkeley in May, 2009, and am continuing on to pursue a PhD in the same program as of Fall 2009. My program of study focuses on the economics of water, including demand management, conservation pricing and water services treatment and provision. In DRA, I analyzed and made recommendations on Golden State Water Company's conservation rate designs and reached a settlement with Golden State Water Company in that case. I also wrote testimony and testified orally on San Gabriel Valley Water Company's conservation rate design proposals.

Q.3 What is your responsibility in this proceeding?

A.3 I am a co-author of Chapter 2 on Revenues, and am primarily responsible for the sections regarding sales forecasts.

Q.4 Does this conclude your prepared direct testimony?

A.4 Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
RAYMOND YIN

Q1. Please state your name, business address, and position with the California Public Utilities Commission (The "Commission").

A1. My name is Raymond Yin and my business address is 505 Van Ness Avenue, San Francisco, California 94102. I am a Public Utilities Financial Examiner in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I graduated from San Francisco State University, with a Bachelor of Science Degree in Accounting. I am a Certified Public Accountant in the State of California. I have been employed by the Commission since January 2008. Previously I was employed by the California State Department of Health Care Services. I have been a tax witness on the following Class A water utilities' General Rate Cases: Suburban Water Systems, Park Water Company, San Jose Water Company, and California American Water Company.

Q3. What is your responsibility in this proceeding?

A3. I am a witness for this proceeding and responsible for Chapter 3 –Operation and Maintenance Expenses for the following districts: Chico, Dixon, Marysville, Oroville, Redwood Valley, Stockton, and Willows.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
CLEASON D. WILLIS

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Cleason D. Willis and my business address is 505 Van Ness Avenue, San Francisco, California 94102. I am a Regulator Analyst in the Water Branch of the Division of Ratepayer Advocates (DRA).

Q2. Please summarize your education background and professional experience.

A2. I graduated from the California State University of Hayward with a Bachelor of Science Degree in Business Administration and Finance, and a Masters of Science Degree in Public Administration and Management. After graduation I joined the California Public Utilities Commission. Since that time I have performed economic and reasonableness analysis for various electrical, gas, water, and telecommunications operations. I have written reports and testified regarding the validity of my findings and recommendations concerning my analysis for various utility proceedings.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Chapter 4 - Administrative and General Expenses for the following California Water Service Company's northern districts: Bear Gulch, Chico, Dixon, Livermore, Los Altos, Marysville, Mid-Peninsula, Oroville, Redwood Valley, South San Francisco, Stockton, and Willows.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
K. JERRY OH

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is K. Jerry Oh and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Financial Examiner IV in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from the University of California at Los Angeles, with a Bachelor of Arts in Business Economics.

Q3. Briefly describe your professional experience.

A3. I have been employed by the Commission since February 2000. While at the CPUC, I have conducted audits of water and energy utilities, managed contract auditors, and reviewed energy procurement costs. For the past three years, I have worked on different areas of a water utility's GRC.

Q4. What is your responsibility in this proceeding?

A4. I am responsible for review of the Affiliate Transaction of CWS, General Office Cost Allocation, Taxes for the Bear Gulch, Chico, Dixon, Livermore, Los Altos, Marysville, Mid-Peninsula, South San Francisco, Oroville, Redwood Valley - Coast Springs, Redwood Valley - Lucerne, Redwood Valley - Unified, Stockton, and Willows districts, and Special Request 3.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
ISAIAH LARSEN

Q1. Please state your name, business address and position with the California Public Utilities Commission (Commission).

A1. My name is Isaiah Larsen. My business address is 505 Van Ness Avenue, San Francisco, California 94102. My job title is Utilities Engineer and I work in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your educational background and work experience.

A2. In December 2007, I completed my M.S. in Environmental Engineering at the University of California, Berkeley. My undergraduate degree is in Materials Science and Engineering from the University of California, Los Angeles.

I have been employed as a student intern at both Lawrence Livermore National Laboratory (LLNL) and Sandia National Laboratories in Livermore, CA. While at LLNL, I designed and fabricated micro-fluidic hydrogen fuel cells for portable power applications.

As a graduate student intern with the Water Branch, my work included a settlement between DRA and Del Oro Water Company on the Regional Intertie Project. I have been a full-time staff member of DRA since July 2008. I have prepared written and oral testimony for the following proceedings: the conservation and rationing programs in Phase 2 of Cal Am's Conservation A.07-12-010, unaccounted for water in Cal Am's Monterey GRC, A.08-01-027, and utility plant in service and conservation for the SJWC GRC, A.09-01-009.

Q3. What is your responsibility in this proceeding?

A3. I am the witness responsible for Utility Plant in Service testimony for Willows, Marysville, Redwood Valley, Dixon, Stockton, Livermore, Bear Gulch, Los Altos, Mid-Peninsula, and South San Francisco. I am responsible for Depreciation, Working Cash and Lead-Lag testimony for these districts. I am also responsible for Special Request 20.

Q4. Does that complete your prepared direct testimony in this proceeding?

A4. Yes.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
RICHARD RAUSCHMEIER

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Richard Rauschmeier and my business address is 505 Van Ness Avenue, San Francisco, California. I am an Auditor in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your educational background.

A2. I graduated from The Johns Hopkins University with a Bachelor's degree in Environmental Science, concentrating in chemistry and water treatment. In 2000, I earned a Masters of Science from Purdue University. In 2008, I completed training and successful examination for certification as both a Water Treatment and Distribution Operator in California under the State's Department of Public Health.

Q3. Briefly describe your professional experience.

A3. For more than 10 years, I have worked as an employee or consultant assisting organizations develop efficient and effective business policies and practices. In December of 2008, I joined the California Public Utilities Commission as an Auditor.

Q4. What is your responsibility in this proceeding?

A4. I am sponsoring the calculation of Net-To-Gross Multipliers of all districts (see Chapter 9), as well as, DRA's testimony in Chapter 5 (Taxes Other Than Income) and Chapter 6 (Income Taxes) for the 12 districts (Antelope Valley, Bakersfield, Dominguez, East Los Angeles, Hermosa-Redondo, Kern River, King City, Palos Verdes, Salinas, Selma, Visalia, and Westlake).

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
TONI CANOVA

Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Toni Canova and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Public Utility Regulatory Analyst in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I graduated from The Evergreen State College in Olympia, Washington, with a Bachelor of Arts Degree in Environmental Studies. I have been employed by the Commission for over six years. I have testified before the Commission in General Rate Cases involving several Class A water utilities including California Water Service Company and Park Water Company. Previously, I was employed by the State of Washington's Department of Ecology for 10 years.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for testimony in Chapter 10 – Customer Service, and for the Result of Operations tables for the twelve northern districts.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
PAT MA

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Pat Ma and my business address is 505 Van Ness Avenue, San Francisco, California 94102. I am a Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates (DRA).

Q2. Please summarize your education background and professional experience.

A2. I received a Bachelor of Science Degree in Industrial Engineering with a concentration in Management from San Jose State University in 1986. In December 2008, I rejoined the Commission as a Utilities Engineer in the DRA's Water Branch. My previous professional position was as a Senior Utilities Engineer at the Commission, where I worked from 1986 to 1999 in transportation, telecommunications, energy and water areas. I received my Professional Engineer License in Industrial Engineering in the State of California in 1989 and also worked briefly for the U.S. EPA, Region 9 as an Environmental Engineer in 1989.

Q3. What is your responsibility in this proceeding?

A3. I am a witness for this proceeding and responsible for Chapters 3 - Operations and Maintenance Expenses for California Water Service Company's Bear Gulch, Livermore, Los Altos, Mid Peninsula and South San Francisco districts and Chapter 12 - Water Quality for its twelve northern districts.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.